



**Individual Life Insurance Marketing Course
FALIA Seminar**

Overview of Life Insurance Industry in Japan



May 20, 2015

The Life Insurance Association of Japan

I Current Life Insurance Market in Japan

- Basic information of Japan and the life insurance business
- Ownership rate
- Amount of coverage, premium income, insurance payment
- Asset management
- Distribution channel
- Insurance companies and their operation in overseas

II Japan's experiences

✓ High-growth and development in insurance business

- Large family structure → Trend toward nuclear families
- Motorization → Recognition of accident risk
⇒ Increased recognition of need for death protection
 Shifted from saving type products to protection type products
- Increase in asset value → High expected interest rate and high dividends
- Door-to-door insurance solicitation at home and workplaces by female workforce
- PR activities by the life insurance industry: “The Month of Life Insurance”

II Japan's experiences

- ✓ Addressing the collapse of bubble economy/extremely low interest rates
 - Little growth, deflationary economy/trend to choose to remain single or postpone marriage, declining birthrate
 - downsizing the coverage
 - Continued extremely low interest rates
 - Arising and increase of negative spread
 - Decrease in asset prices/increase of bad loans
 - Failure of life insurers
- ⇒ Development of systems to maintain the financial soundness of insurers
- ⇒ efforts by the industry

II Japan's experiences

- ✓ Adapting to super aged society
 - Shift to living coverage-oriented (such as annuity, medical insurance)
 - Tax deduction scheme supporting this tendency
 - Distribution method that gives due consideration to elderly
 - Increase in the number of elderly living alone, impaired judgment
 - Enhancement of house-visiting activities, increasing contact information
- *Lessons from Great East Japan Earthquake

II Japan's experiences

✓ Enhancing credibility

- Turn-over
 - Efforts to improve persistence rate
- Preventing Moral Hazard
 - Operating systems such as Policy Data Registration System
- Establishing compliance/sales ethic
- Issues regarding payment of benefits
 - Providing information regarding claim procedures thoroughly
 - Reconstructing administrative systems
 - Reflecting complaints and external input on management of insurers

- Conducting research and taking statistics
- Representing the opinions of life insurance industry
- Development of voluntary guidelines
- Consultation and Alternative Dispute Resolution
- Education
- Preventing moral hazards
- Others

Thank you

If you have any question, please feel free to contact me at
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Data Book



May 20, 2015

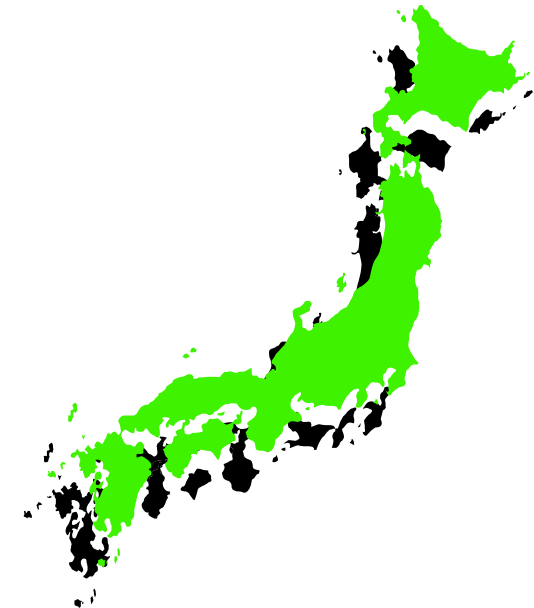
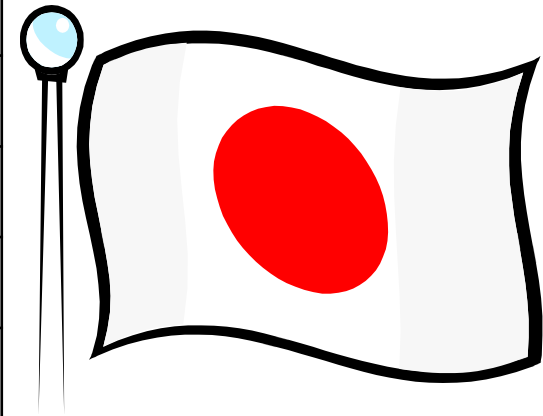
The Life Insurance Association of Japan

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3. Ageing Population	
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I Basic Information of Japan

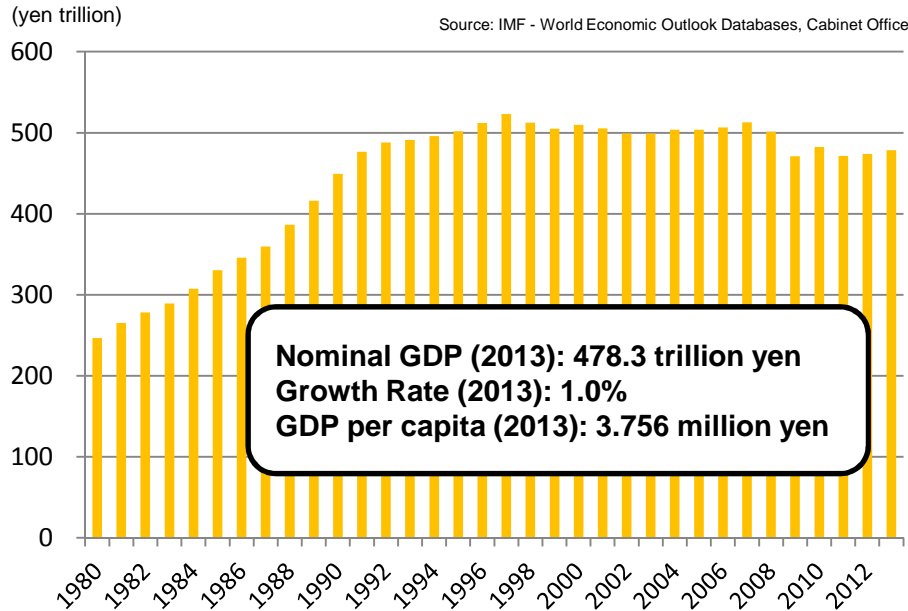
1. General Information

Name	Japan
Area	377,914km ² (rank 60 th)
Population	127 million (rank 10 th)
Capital	Tokyo
Language	Japanese
Main Religion	Shinto/Buddhism
Government	Prime Minister: Shinzo Abe (Liberal Democratic Party)
Trade	Import: crude oil, petroleum products, LNG (liquefied natural gas), clothes, coal, non-ferrous metal, semiconductor electric component Export: automobile, auto component, steel, semiconductor electric component, boats and ships, plastic, engines and turbines

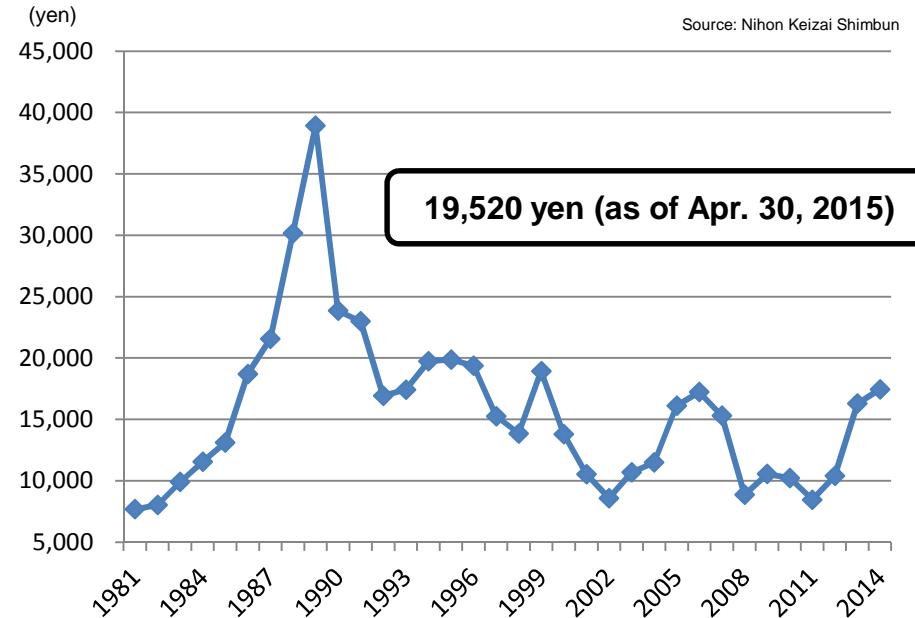


2. Economic Trends

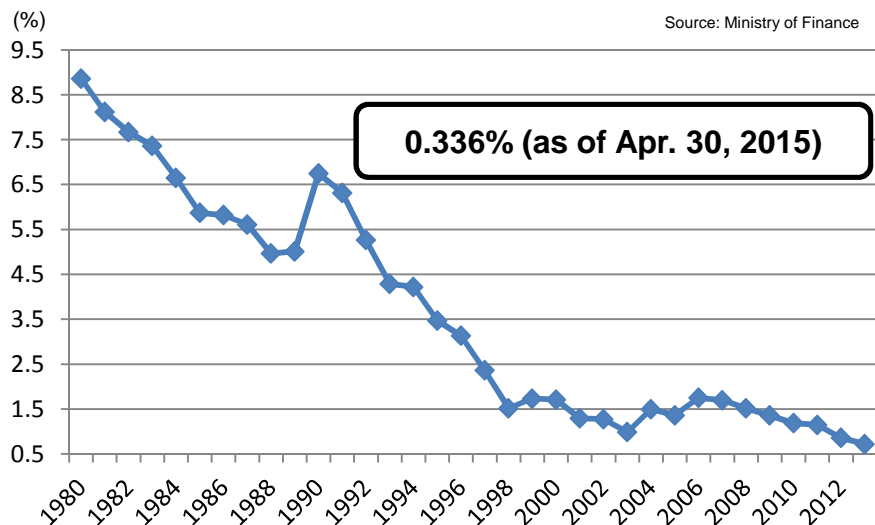
(1) Changes in Nominal GDP



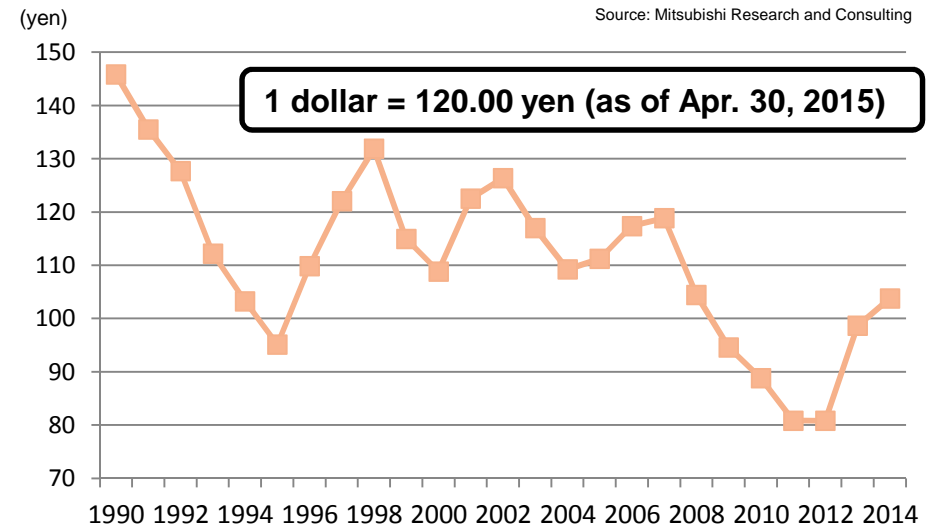
(2) Stock Price (The Nikkei Stock Average)



(3) Interest Rate (JGB 10-year yield)



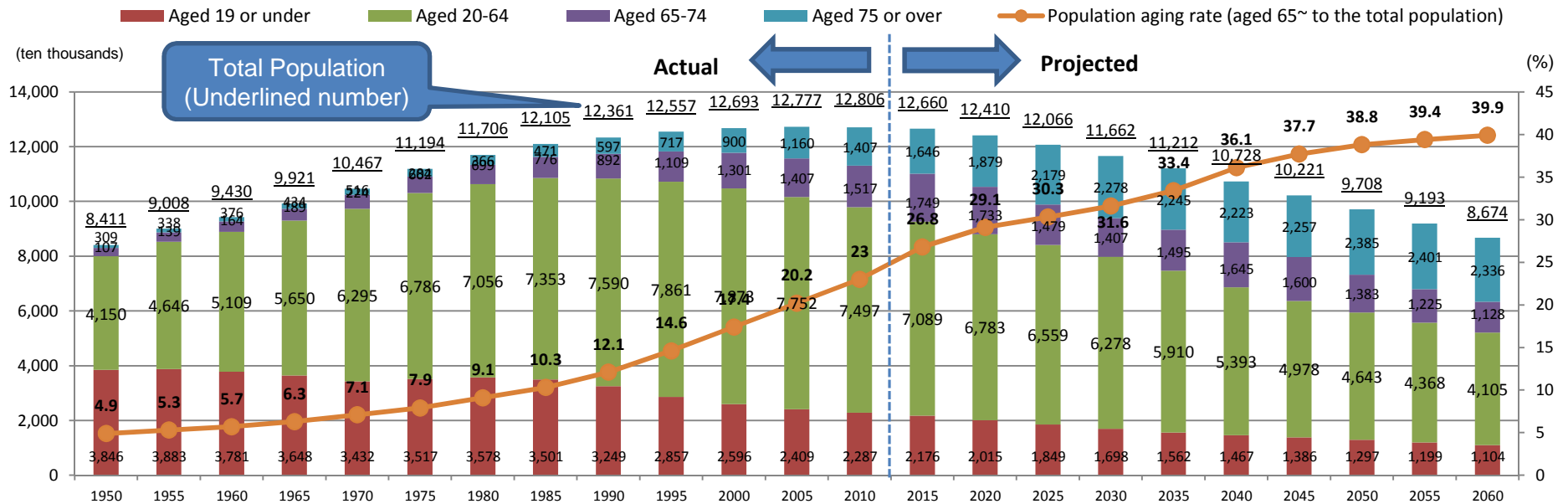
(4) Yen-Dollar Exchange Rate



I Basic Information of Japan

3. Ageing Population

(1) Population Demographics

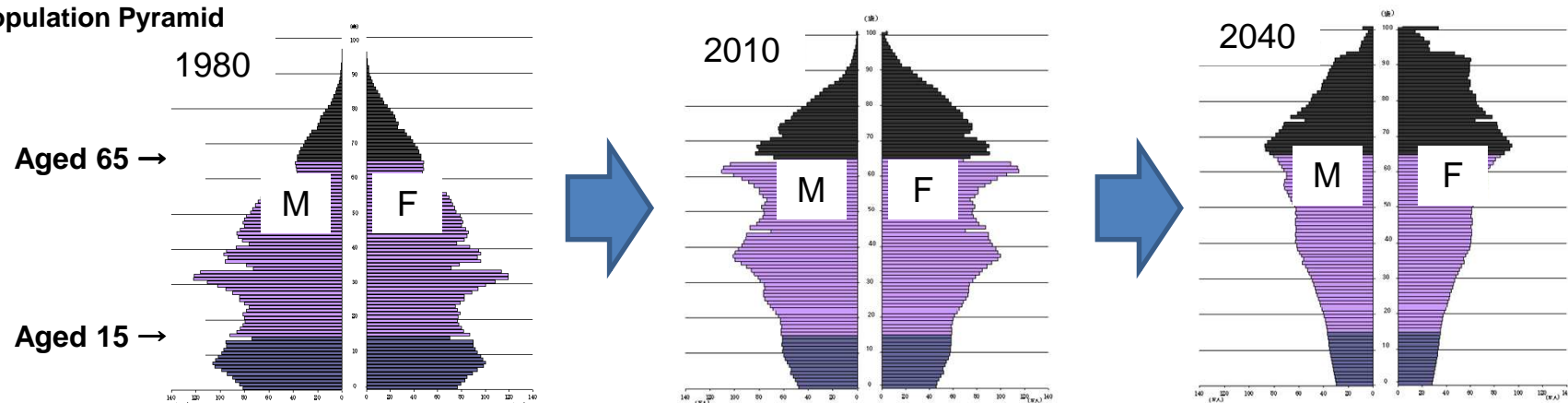


Source : For the figures until 2010, "Population Census", The Ministry of Internal Affairs and Communications

For the figures from 2015, The result of the medium variant projection under "Population Projection for Japan (as of January 2012)", National Institute of Population and Social Security Research

(Note) The total population from 1950 to 2010 includes the population of uncertain age.

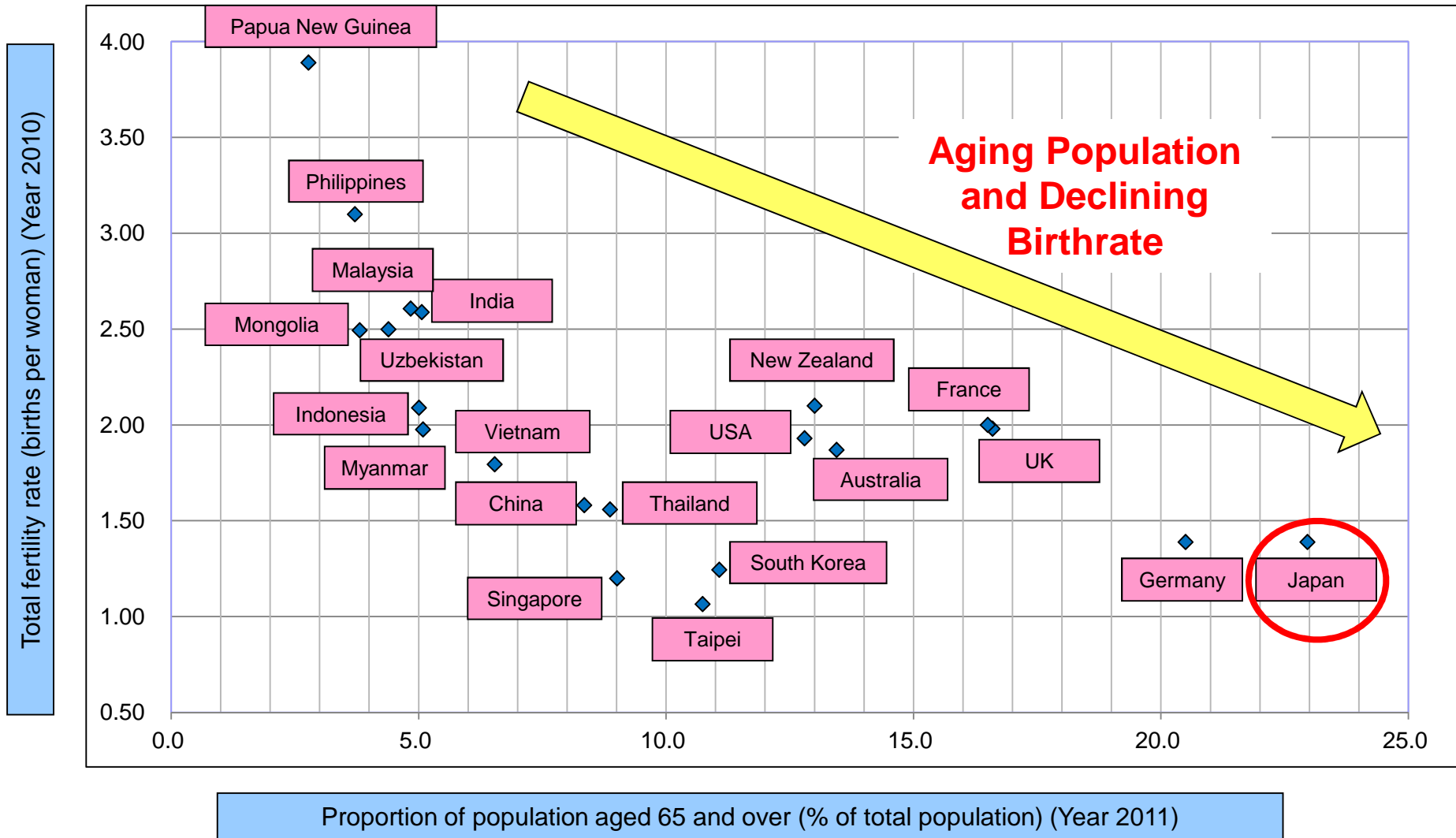
(2) Population Pyramid



Source : For the figure of 1980, "Population Census", The Ministry of Internal Affairs and Communications

For the figure of 2010 and 2040, The result of the medium variant projection under "Population Projection for Japan (as of January 2012)", National Institute of Population and Social Security Research

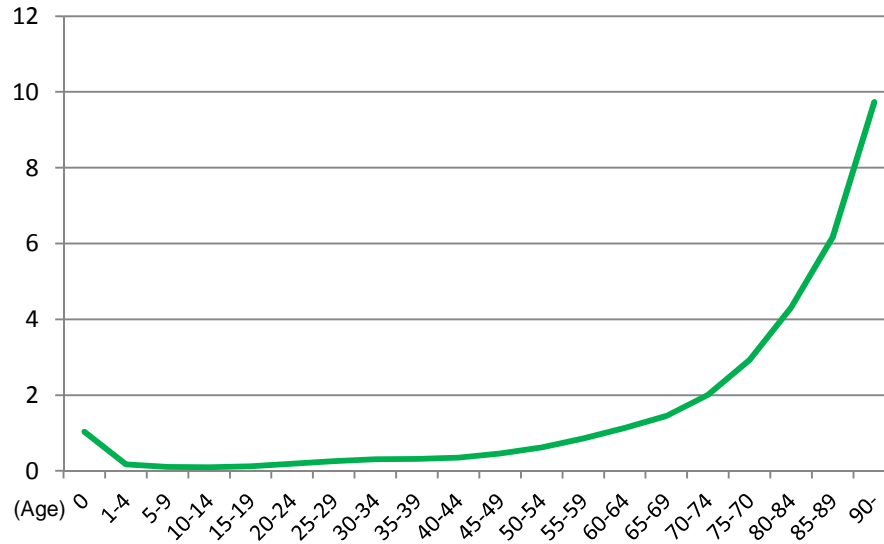
(3) Aging Population in the World



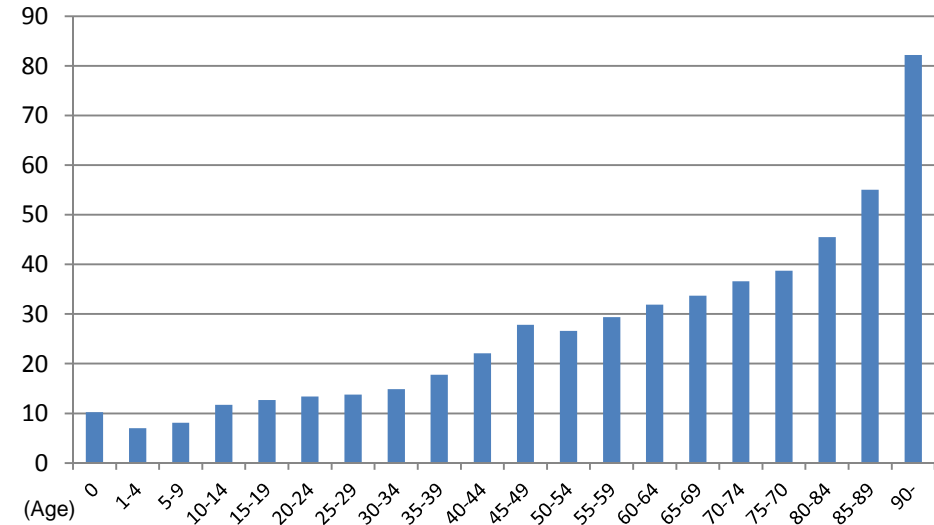
Source: Asian Development Bank(ADB), National Institute of Population and Social Security Research

(4) Medical Expenses

(%) (a) Hospitalization Rate by Age Group

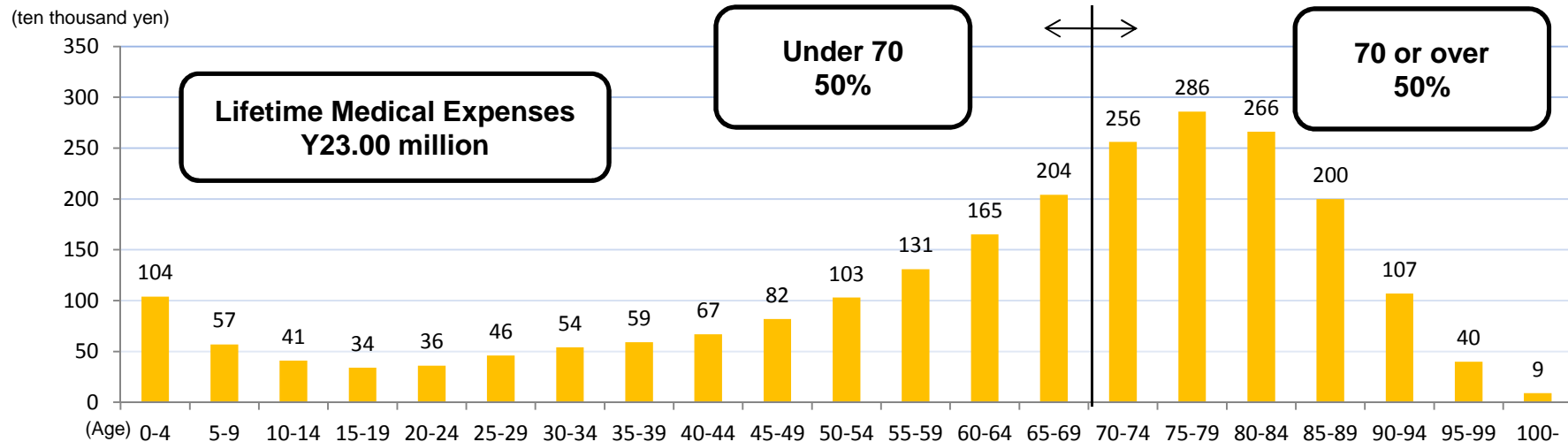


(Days) (b) Average Days of Hospitalization by Age Group



Source: "Patient Survey (2011)", Ministry of Health, Labour and Welfare

(c) Lifetime Medical Expenses (Estimates in Fiscal 2009)



Source: Ministry of Health, Labour and Welfare

(5) Long-Term Care Expenses

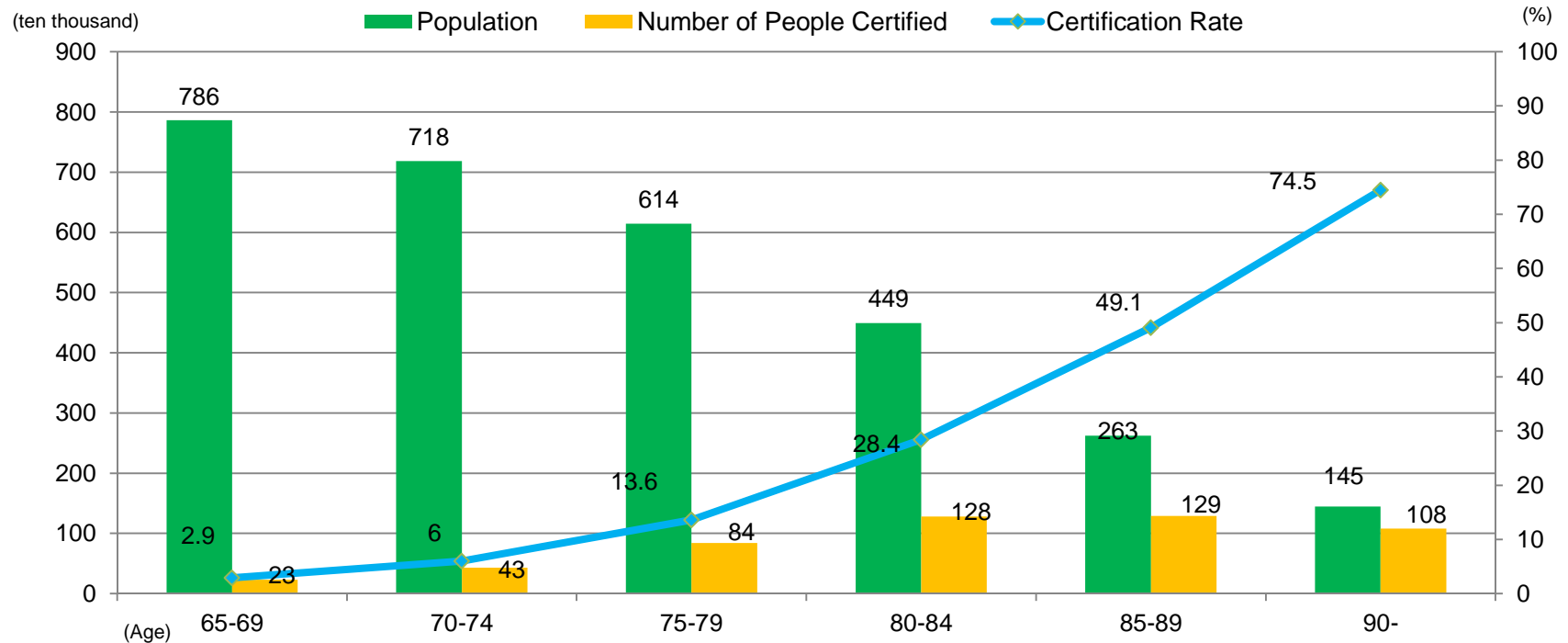
(a) Period of Unhealthy Condition = Average Life Expectancy at Birth – Healthy Life Expectancy

(Years)

Year	Male			Female		
	Average period of a life WITHOUT physical limitations	Average period of a life WITH physical limitations	Average life expectancy	Average period of a life WITHOUT physical limitations	Average period of a life WITH physical limitations	Average life expectancy
2010	70.4	9.2	79.6	73.6	12.8	86.4

Source: Ministry of Health, Labour and Welfare

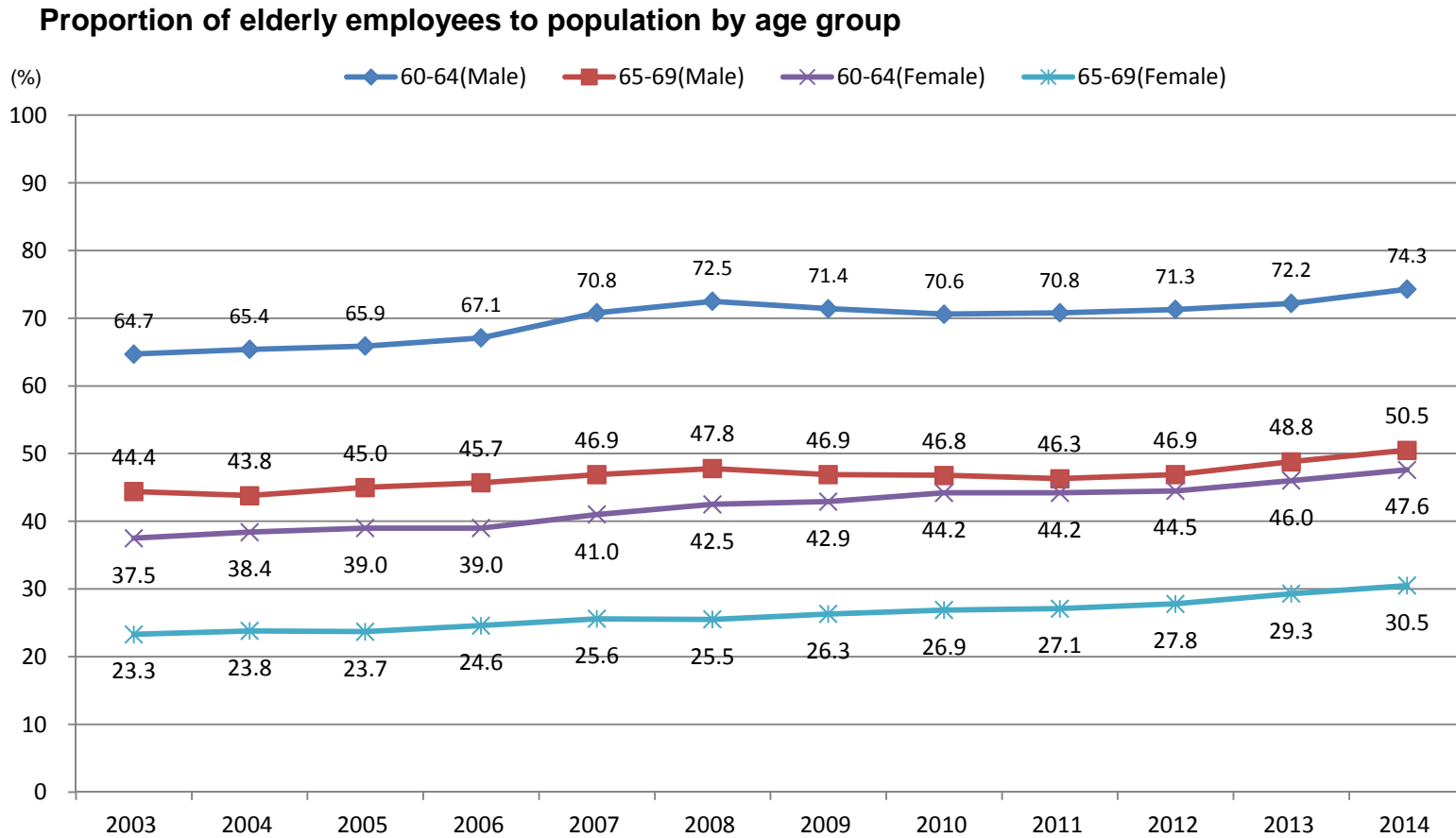
(b) Certification Rate of Needed Long-Term Care in 2011 By Age Group



Source: "Survey of Long-Term Care Benefit Expenditures", Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications

(6) Employment and Asset Holdings of the Elderly

(a) Labour Force Participation Rate of the Elderly

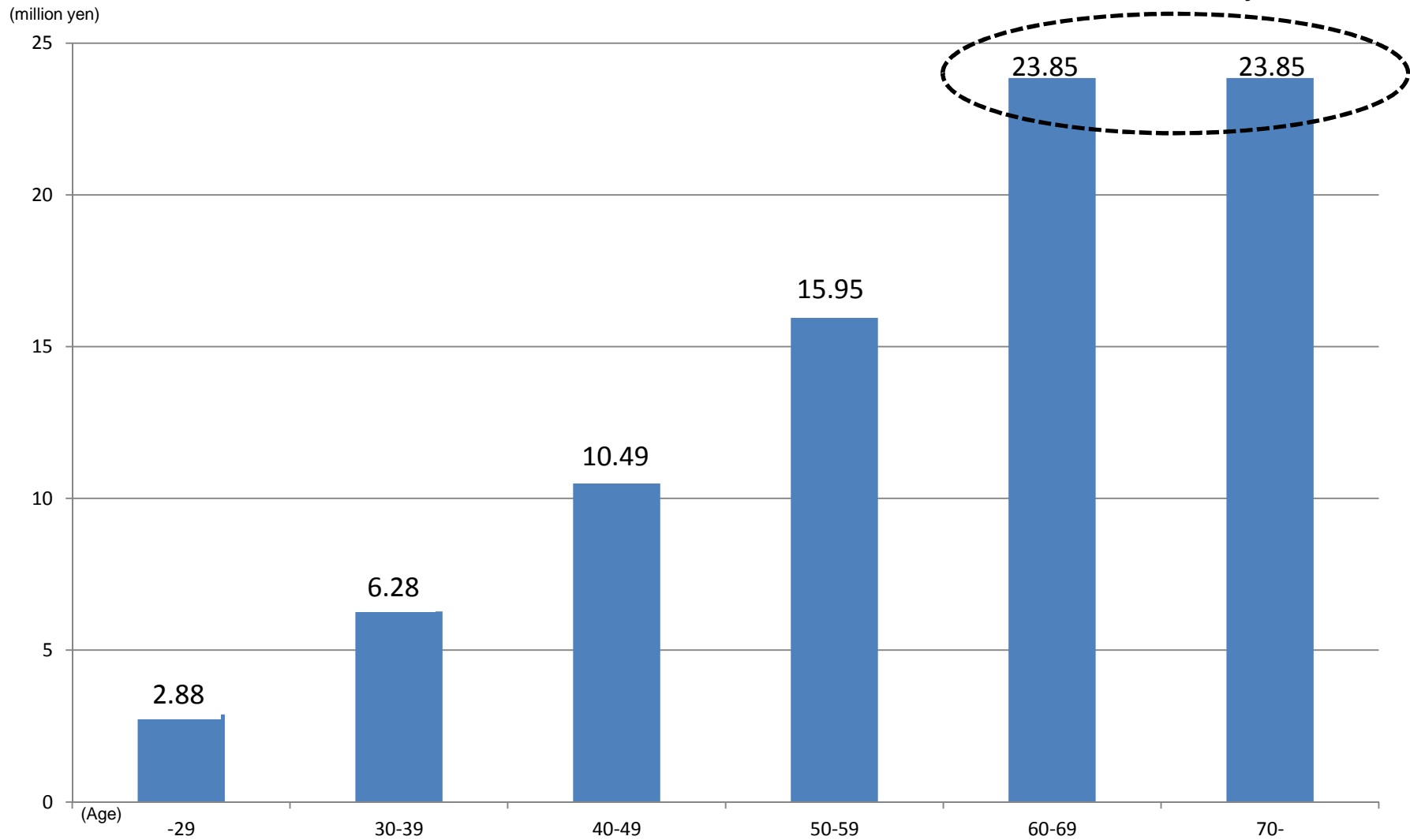


Source: "Labour Force Survey", Ministry of Internal Affairs and Communications

- Note that about 40% of unemployed elderly men are willing to work.

(b) Assets of the Elderly

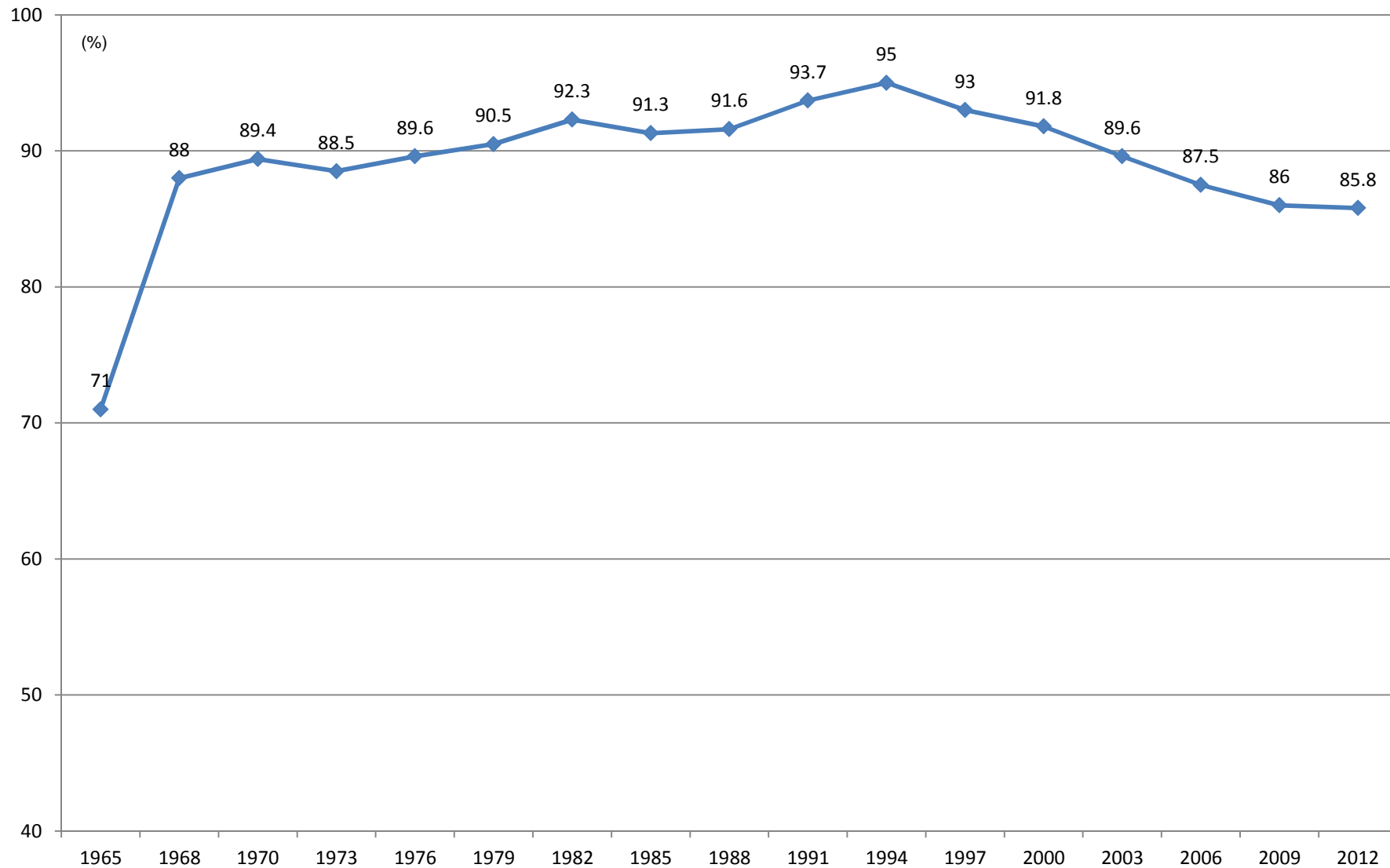
Average savings of householders by age group



Source: "Family Income and Expenditure Survey (2013)", Ministry of Internal Affairs and Communications

II Life Insurance Market in Japan

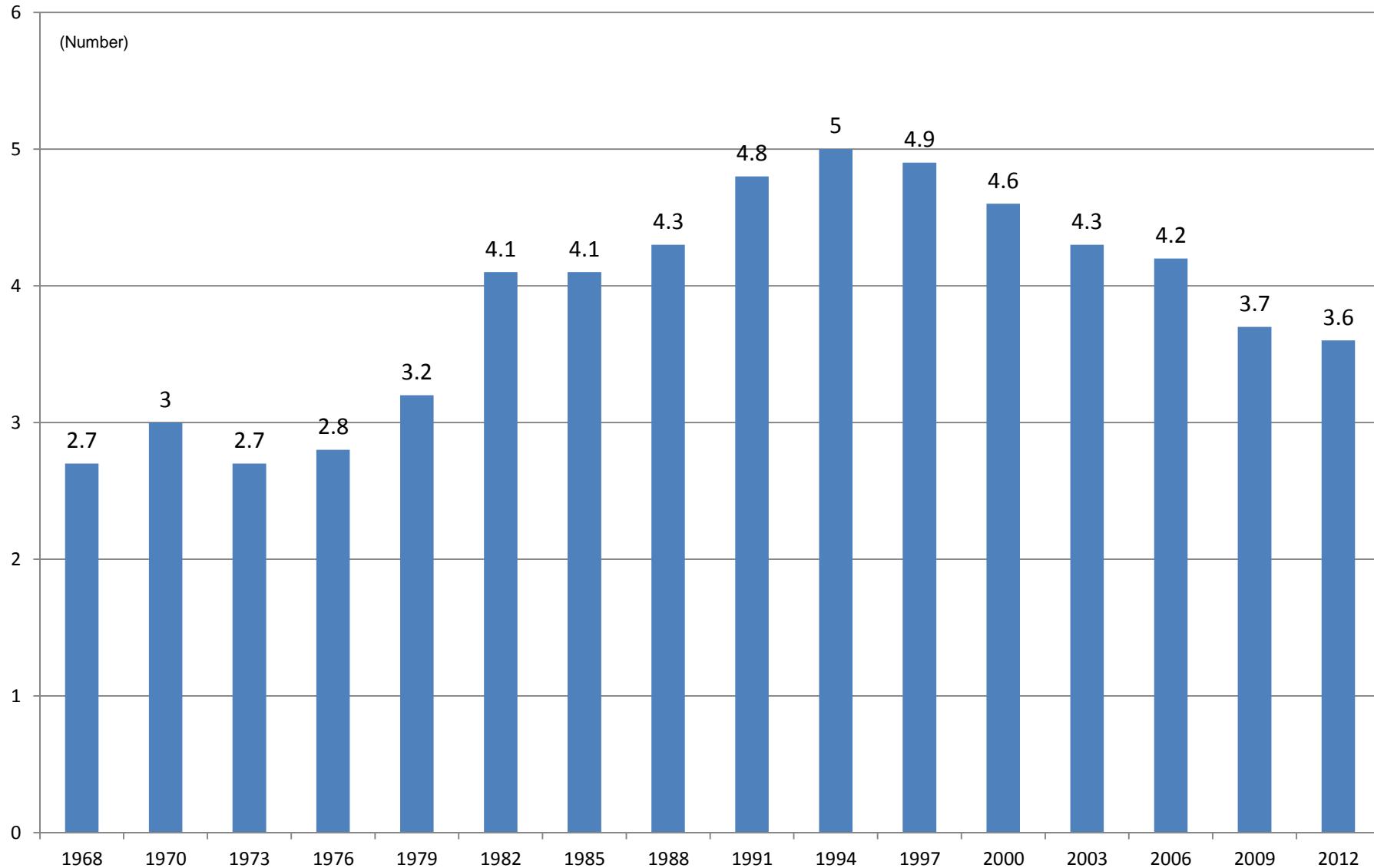
(1) Changes in Life Insurance Ownership Rate per Households



Source: Japan Institute of Life Insurance: Consumer Survey

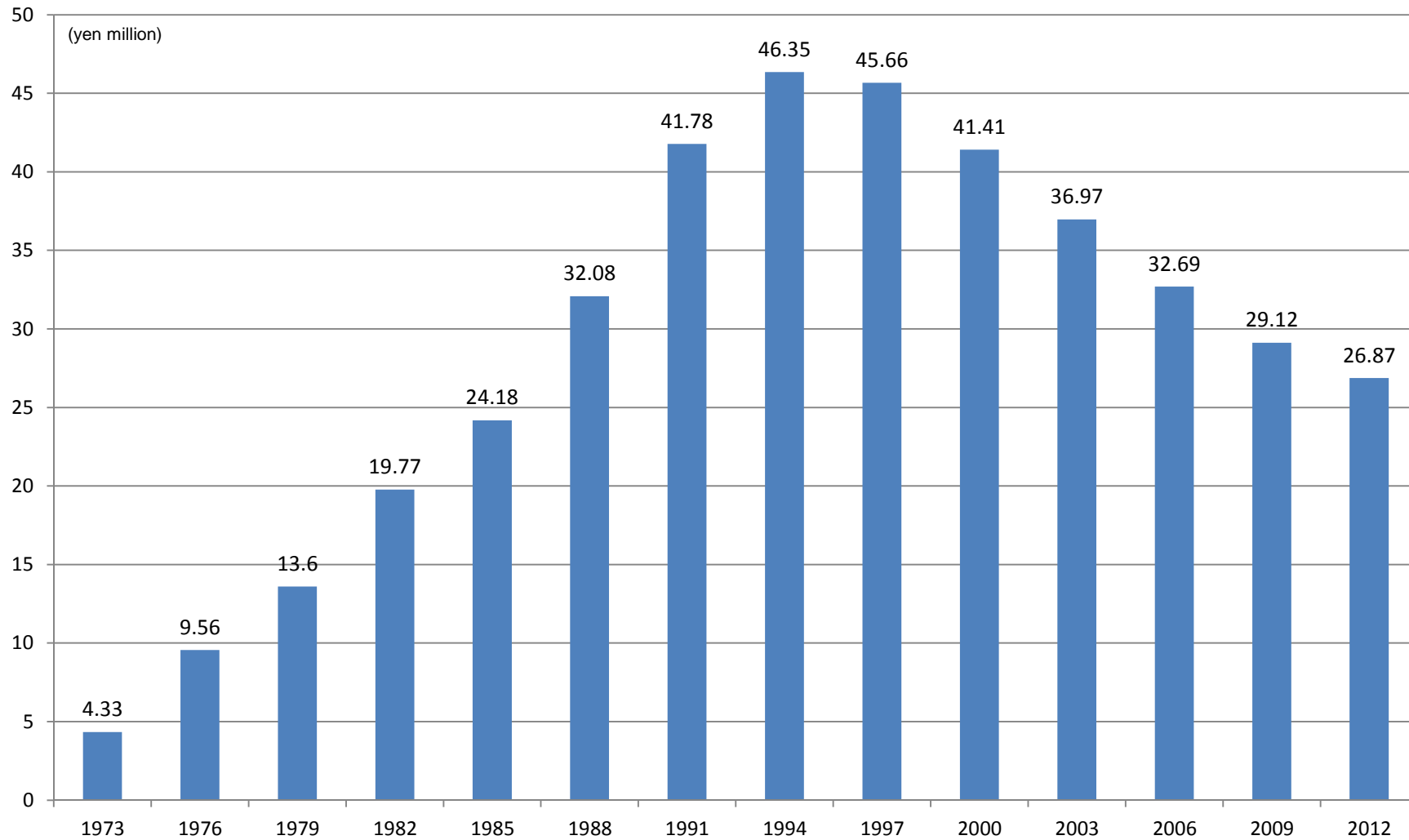
Note: The data includes the total of private life insurance (including Japan Post Insurance), postal insurance and JA cooperative

(2) Number of Life Insurance Policies Owned by Household



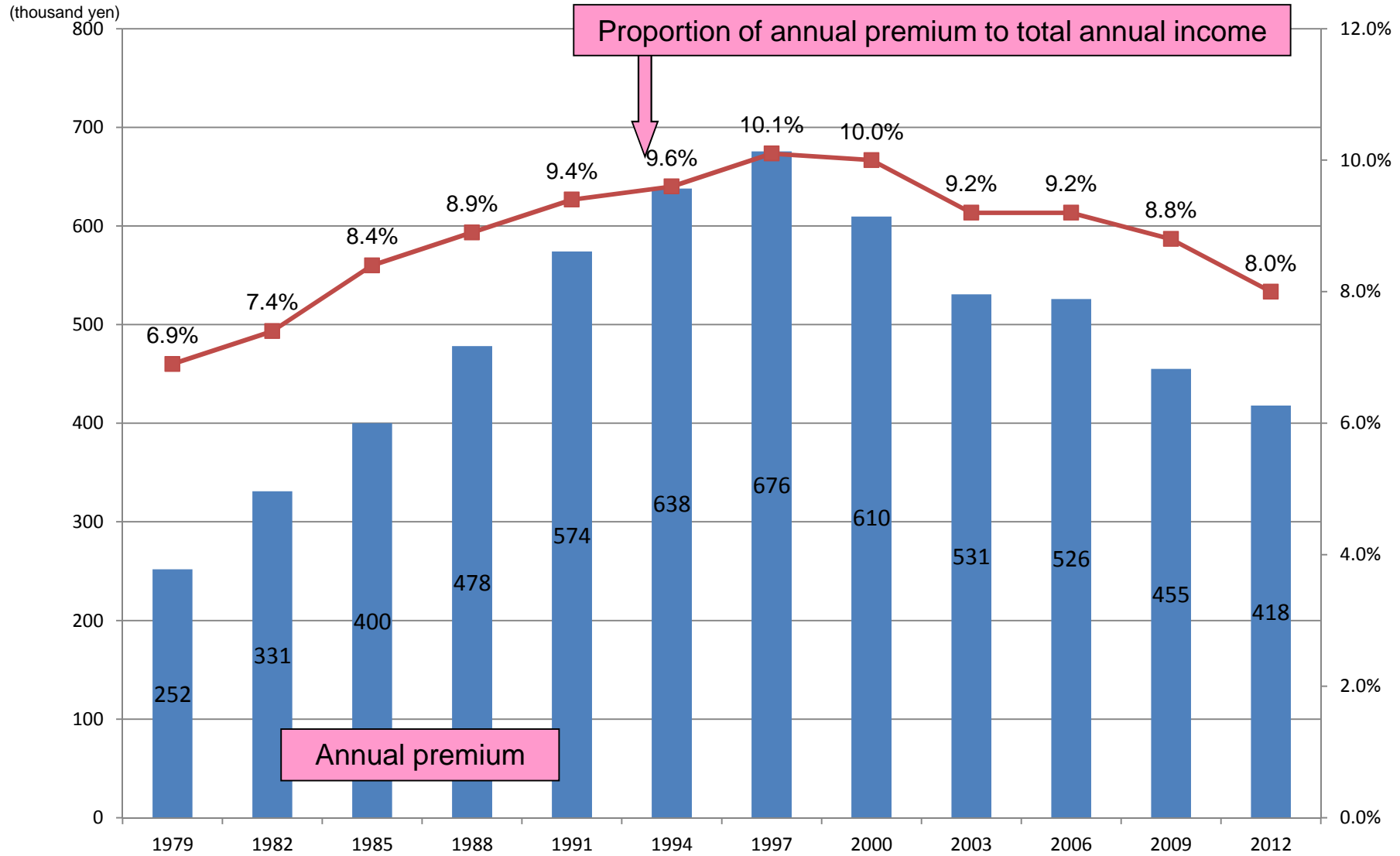
Source: Japan Institute of Life Insurance: Consumer Survey

(3) Average Amount of Coverage per Household



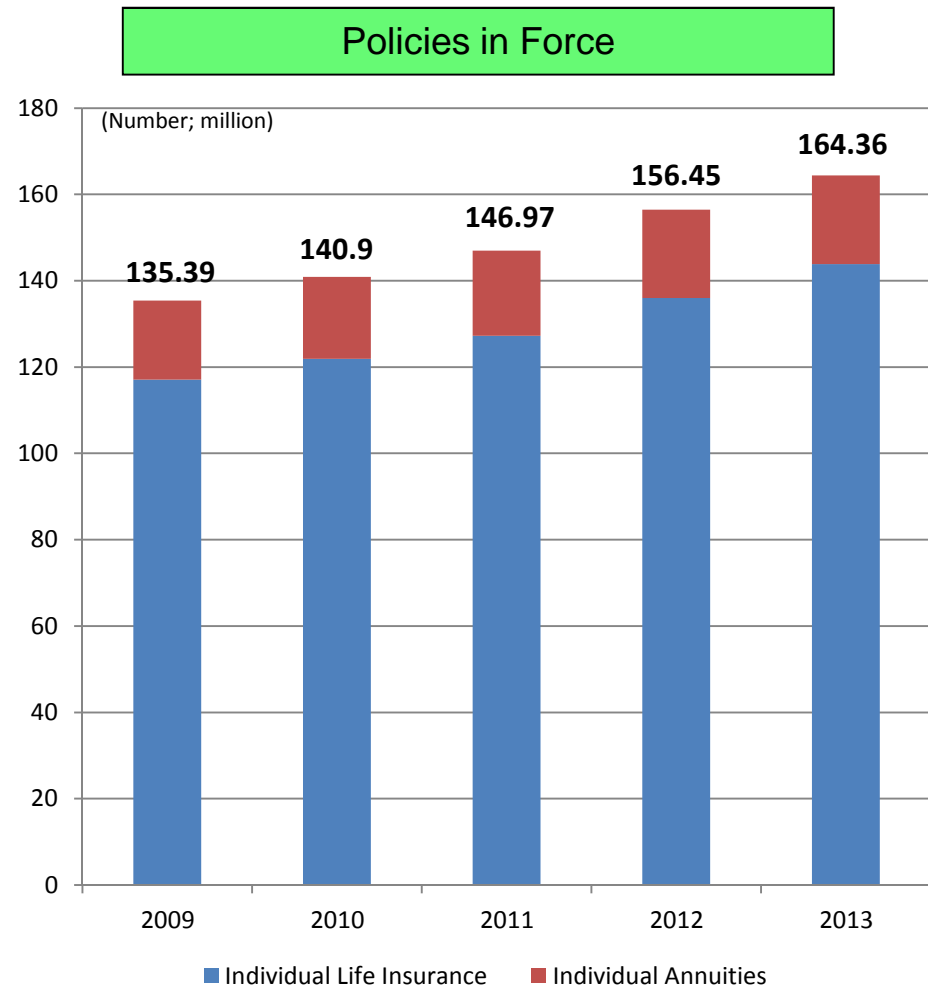
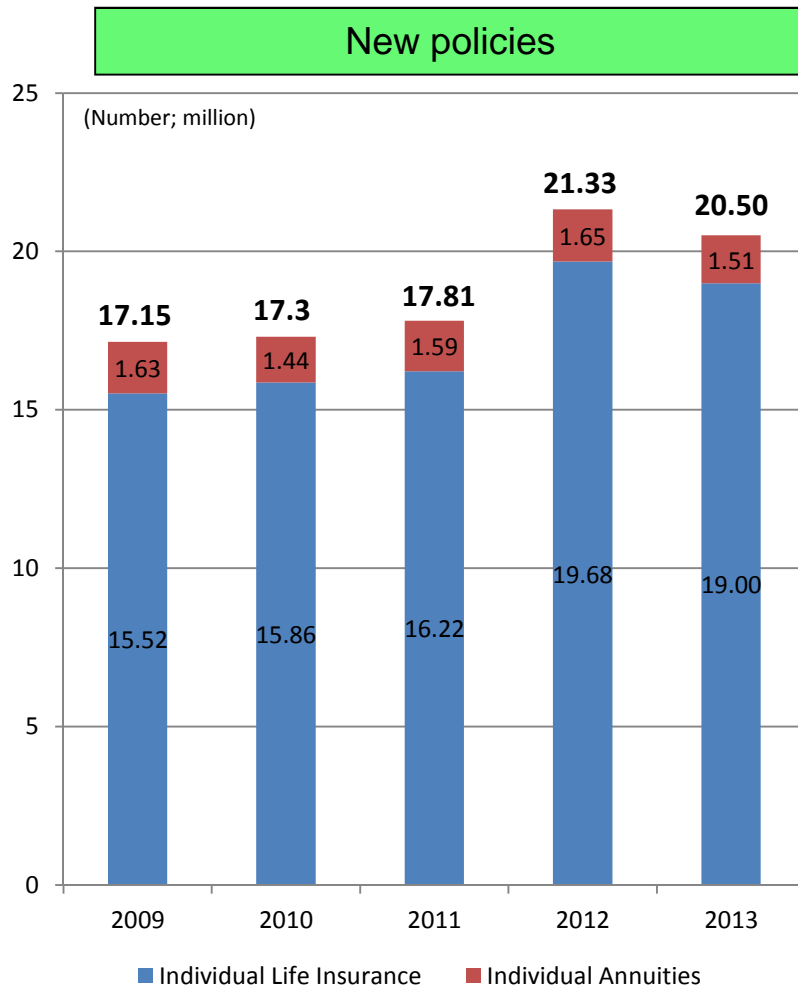
Source: Japan Institute of Life Insurance: Consumer Survey

(4) Annual Premium Payment per Household

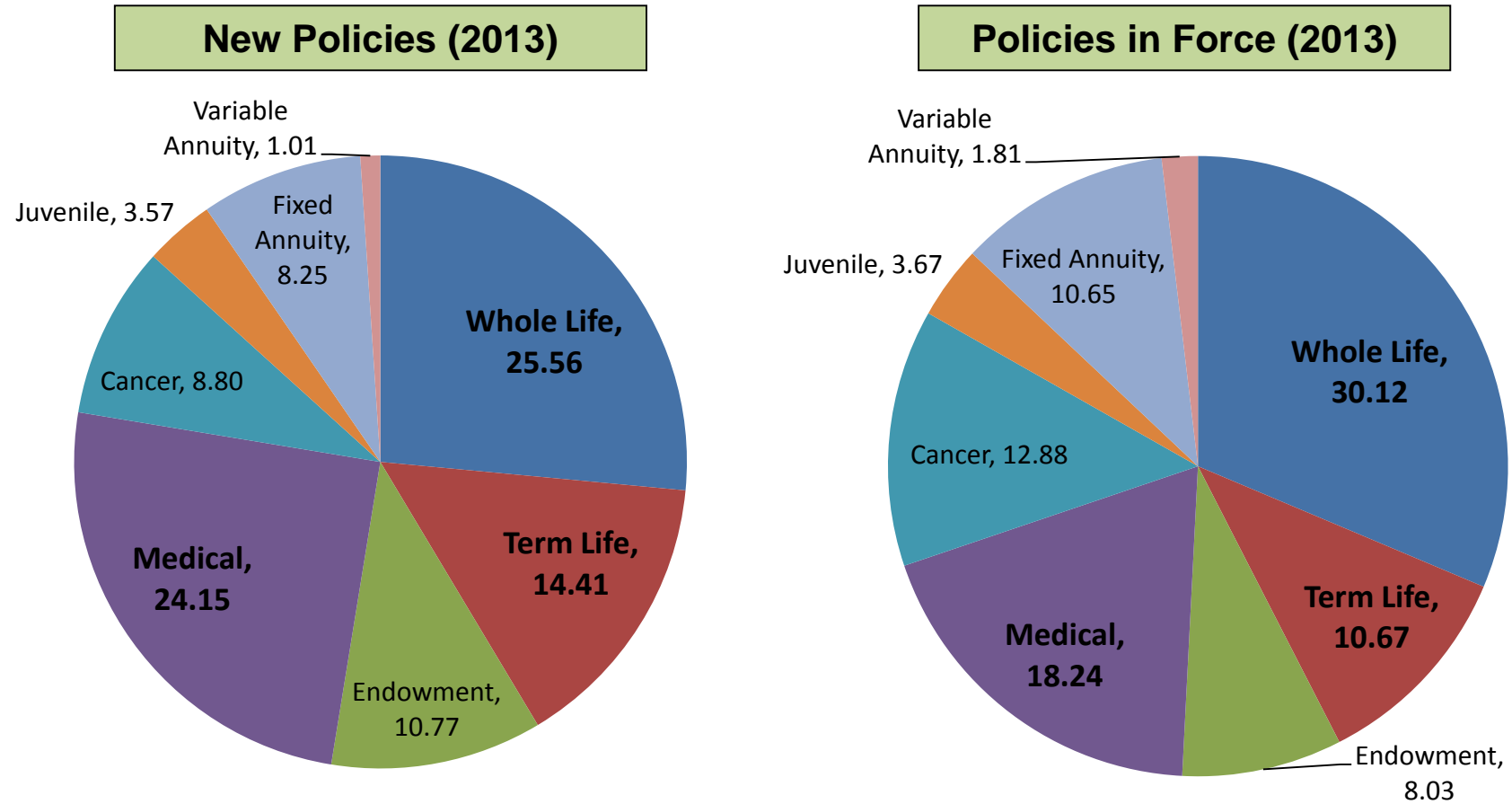


Source: Japan Institute of Life Insurance: Consumer Survey

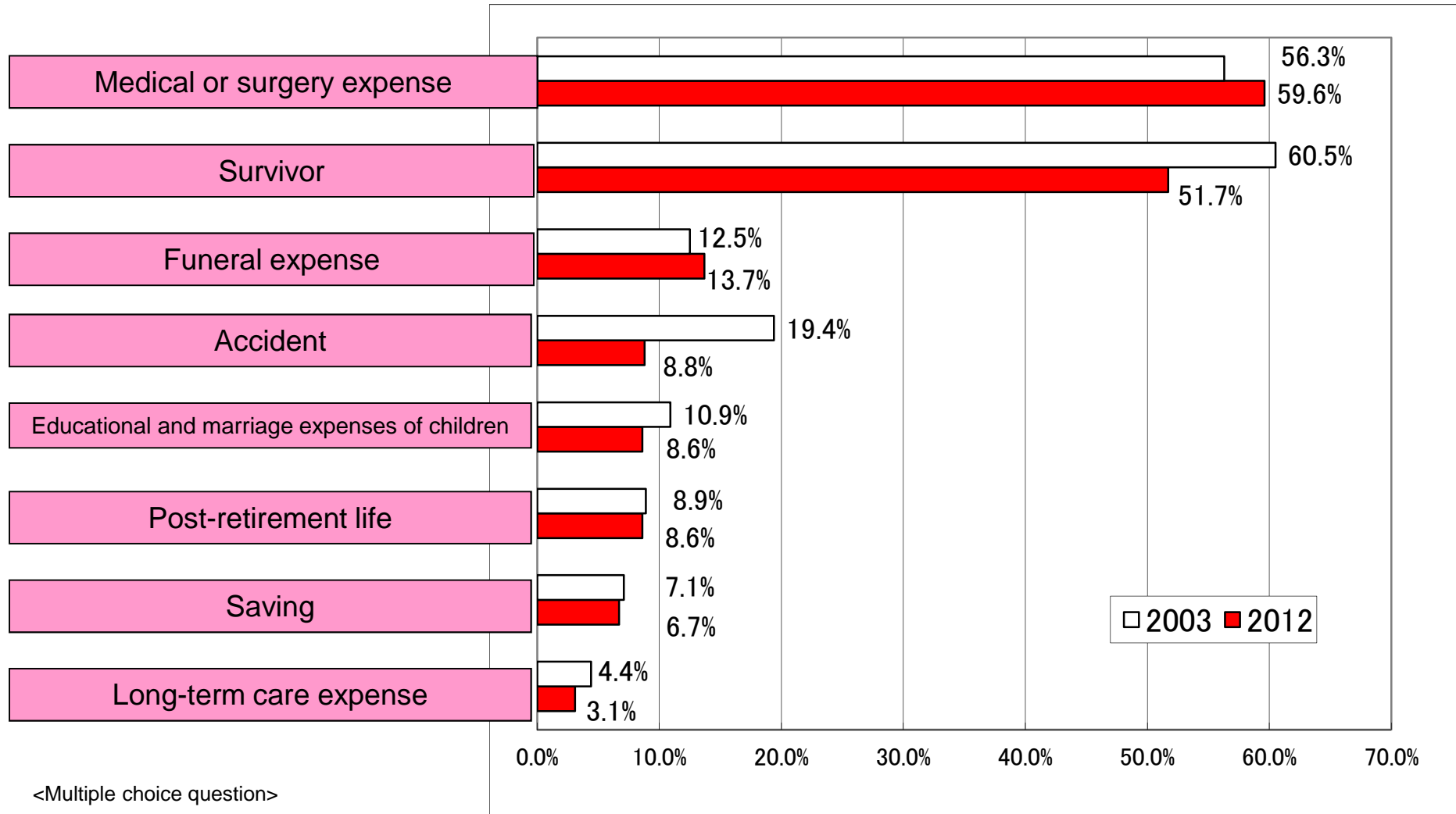
(5) Number of Individual Insurance Contracts



(6) Individual Insurance Share by Type

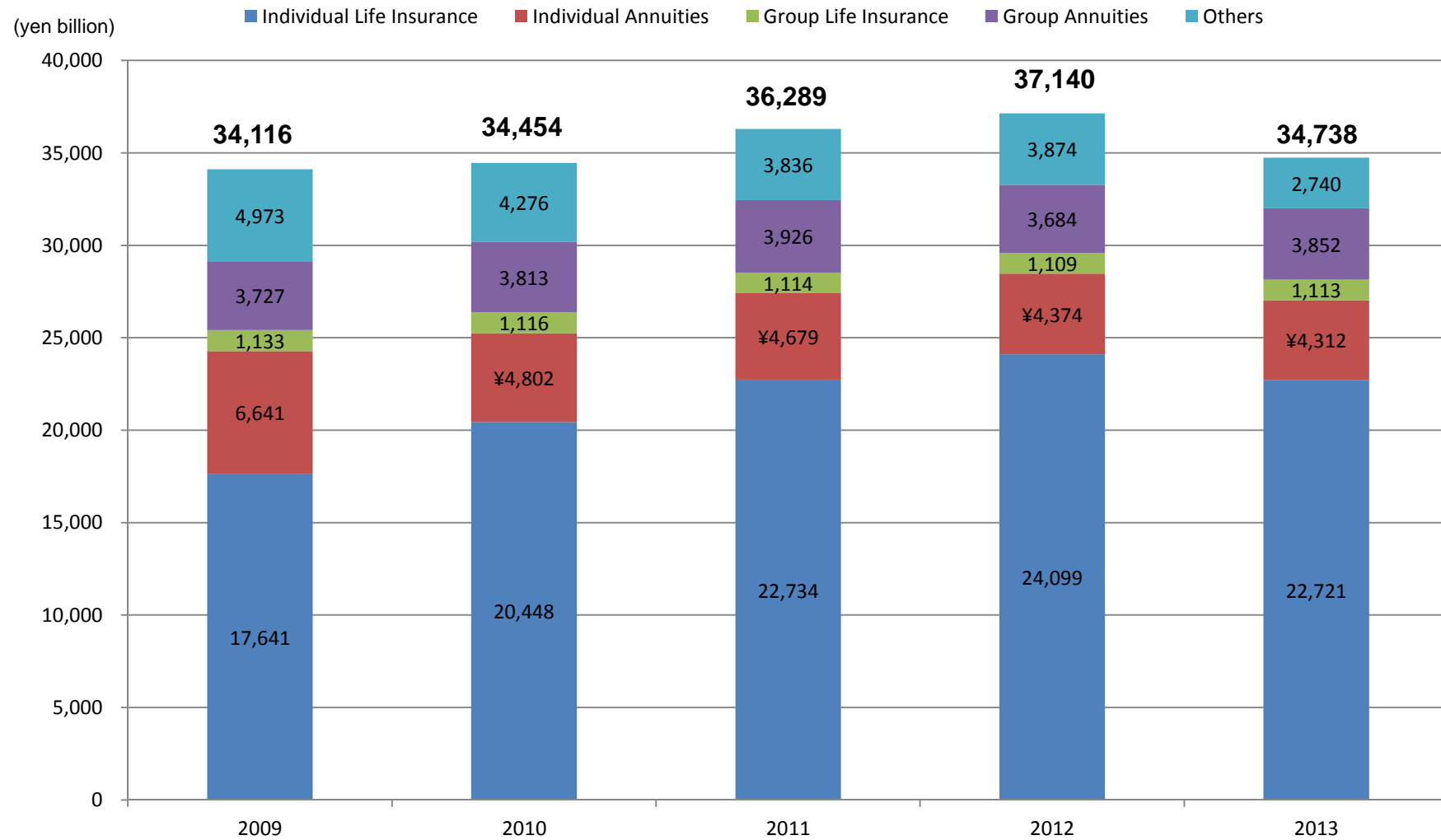


(7) Purpose of Life Insurance Ownership



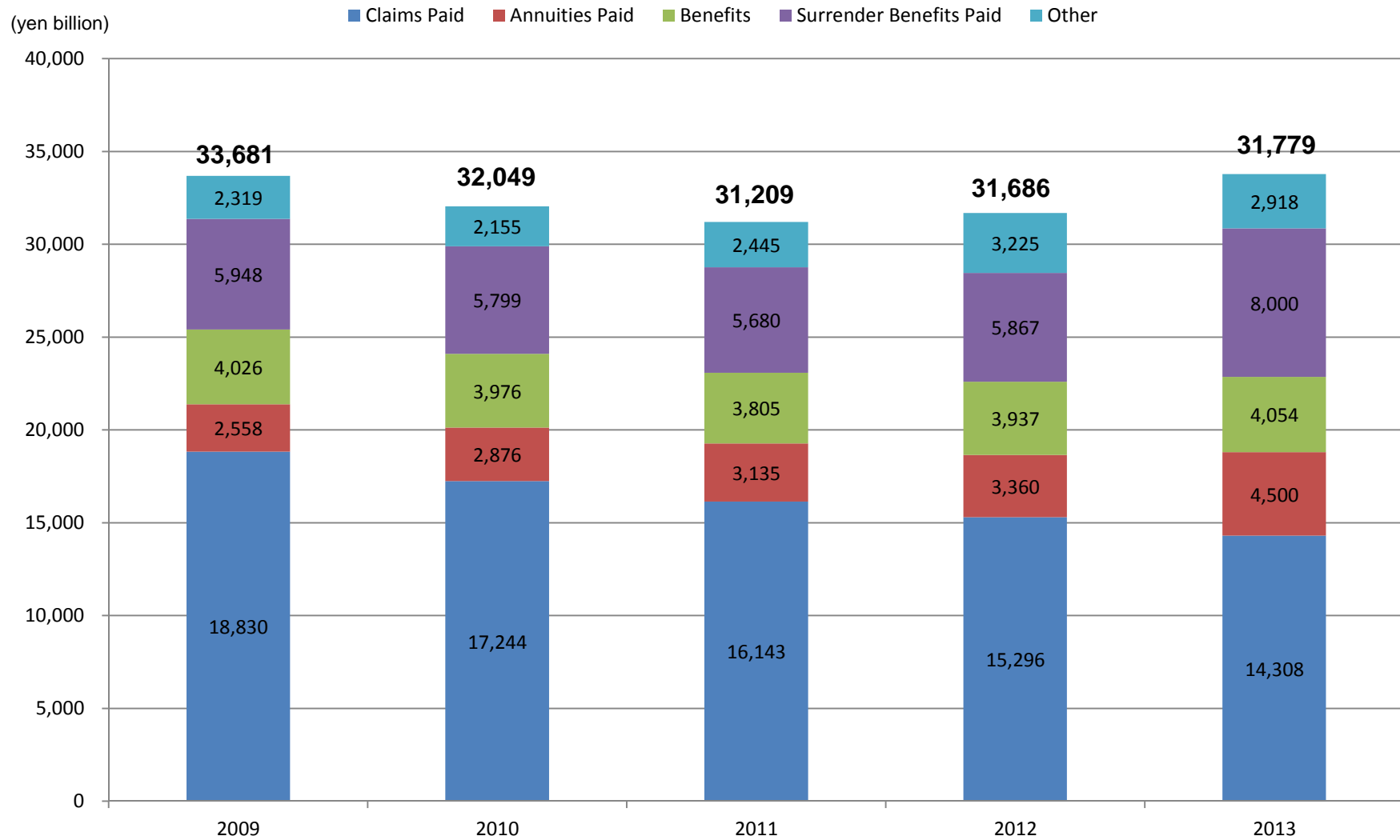
Source: Japan Institute of Life Insurance: consumer survey

(8) Premium Income

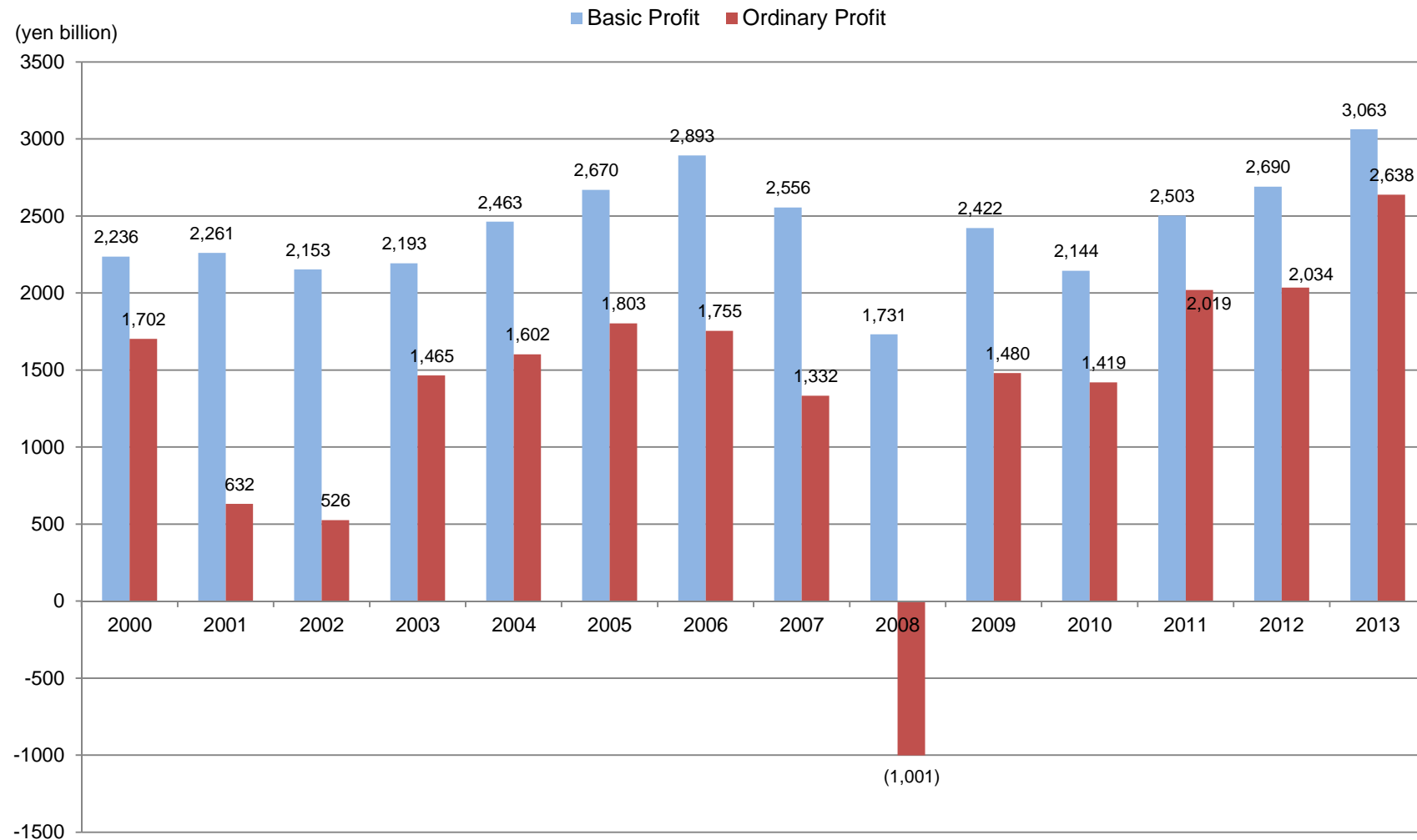


Source: The Life Insurance Association of Japan

(9) Insurance Payment



(10) Profit

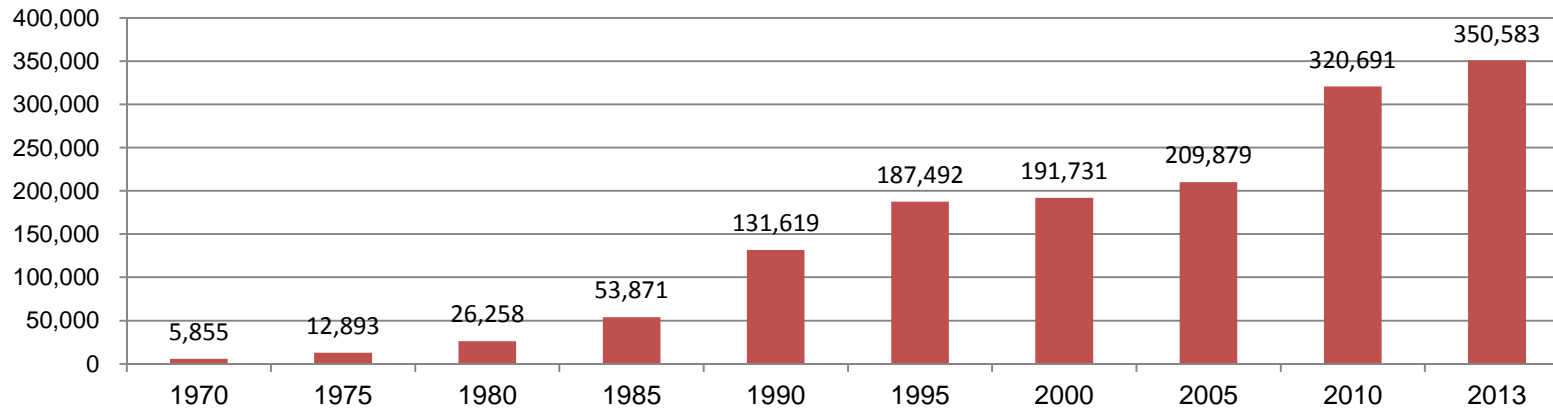


Basic profit represents the profitability of the life insurance business.

*Basic Profit = Ordinary Profit - Capital Gain/Loss - Nonrecurring income/loss

(11) Total Assets and Portfolio Yields

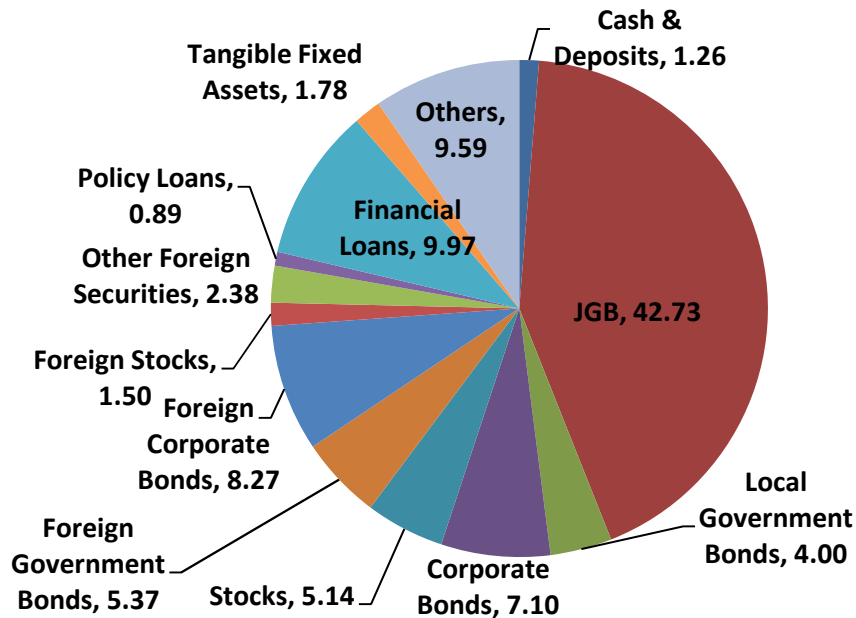
Changes in Total Assets



Total Assets: 350 Trillion Yen

(%)

(As of the end of March 2014)



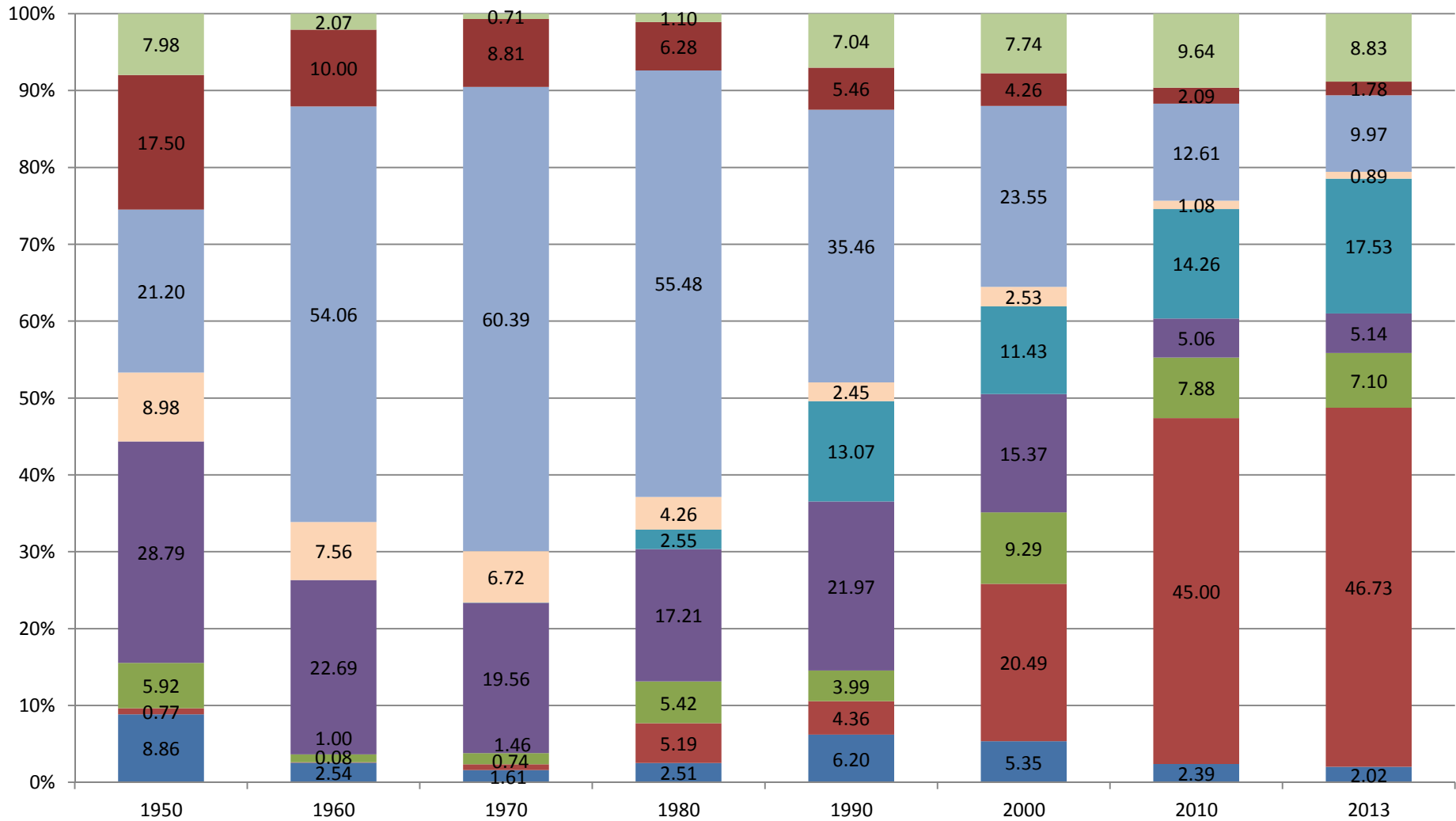
Portfolio Yields by Type of Assets

(As of the end of March 2014)

	Bonds	Domestic Stocks	Foreign Securities	Financial Loans	Real Estate	General Account Assets
2009	1.64	2.33	2.52	2.05	2.87	1.86
2010	1.86	1.25	2.06	1.98	2.52	1.79
2011	1.91	1.56	2.91	1.94	2.27	1.92
2012	2.00	0.61	5.25	2.18	2.35	2.36
2013	1.95	5.14	4.60	2.15	2.43	2.40

(12) Changes in Asset Management Portfolio

■ Cash/Deposits & Call Loans
 ■ Government Bonds
 ■ Corporate Bonds
 ■ Stocks
 ■ Foreign Securities
 ■ Policy Loans
 ■ Financial Loans
 ■ Tangible Fixed Assets
 ■ Others



Source: The Life Insurance Association of Japan

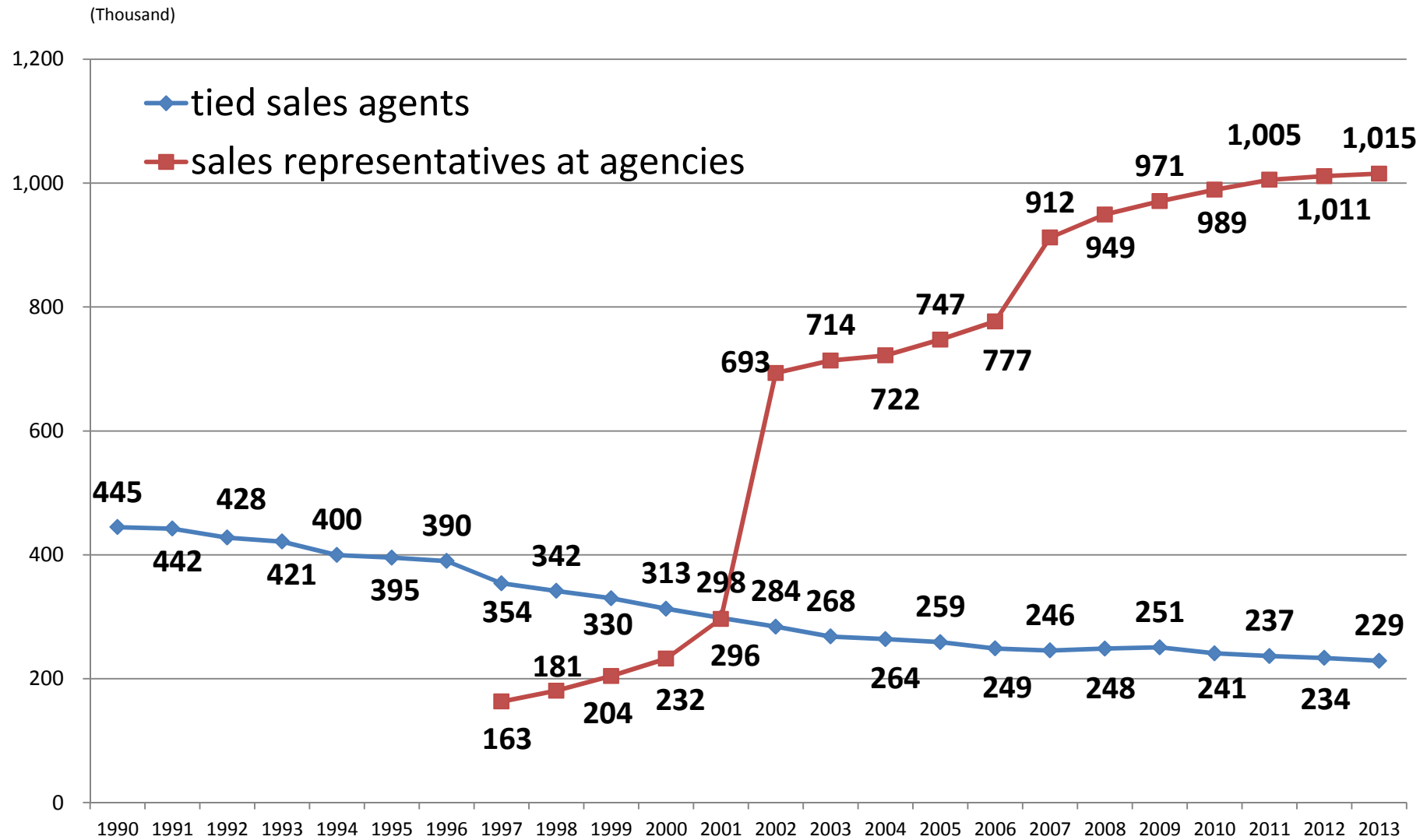
(13) Distribution Channel

(a) Share of Distribution Channel

	2007	2013
Tied Sales Agents	56.7	49.7
House visit	38.8	31.4
Workplace	17.9	18.3
Direct Sale	5.7	5.8
Internet	1.0	1.5
TV, Newspaper, Magazine	4.7	4.3
Office of Insurer	11.2	15.8
Bank/Securities Firm	2.8	2.5
Bank	2.7	2.4
Securities Firm	0.1	0.1
Sales Agency	3.8	9.4
At the Counter	-	3.4
Sales Representative	-	6.1
Via Workplace or Labor Unions	6.3	6.6
Others	9.9	7.1

II Life Insurance Market in Japan

(b) Number of Life Insurance Sales-Person



(14) Japan's Position in the World Life Insurance Market

<Life Insurance Premium Volume by country in 2013>

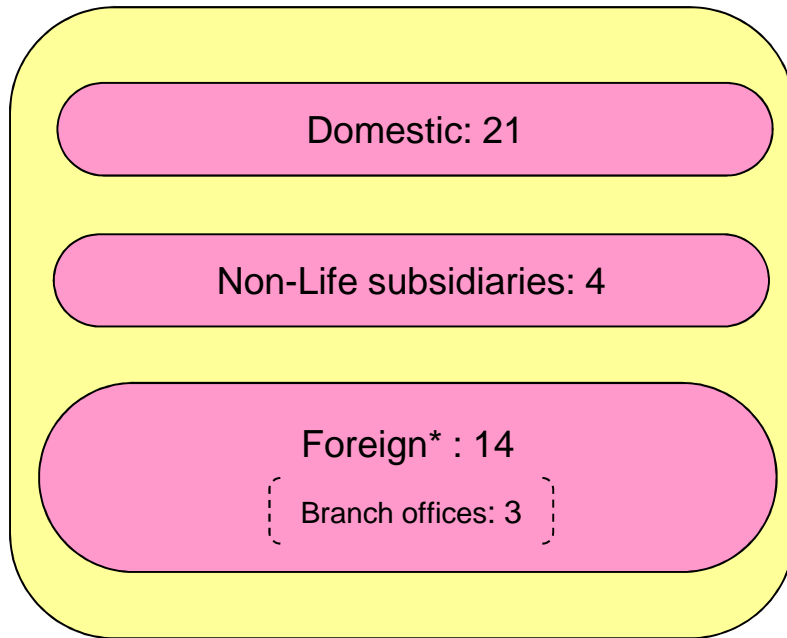
Ranking	Country	Share in World Market
1	United States	20.43%
2	Japan	16.21%
3	United Kingdom	8.55%
4	France	6.14%
5	China	5.83%
6	Italy	4.52%
7	Germany	4.38%
8	South Korea	3.50%
9	Taiwan	2.88%
10	Canada	2.01%

<New Premium Written by company in 2013>

Ranking	Company name	Ranking	Company name
1	Axa S.A.	11	Japan Post Insurance Co.Ltd.
2	UnitedHealth Group Inc.	12	Prudential plc
3	Allianz SE	13	Zurich Insurance Group Ltd.
4	Assicurazioni Generali S.p.A.	14	Nippon Life Insurance Co.
5	Munich Reinsurance Co.	15	People's Ins (Group) Co of China Ltd.
6	WellPoint Inc.	16	Dai-ichi Life Insurance Co. Ltd.
7	China Life Insurance (Group) Co.	17	Aetna Inc.
8	State Farm Group	18	LPing An Ins (Group) Co of China Ltd.
9	National Mutual Ins Fed of Agricultural Cooperatives	19	Life Insurance Corporation of India
10	Kaiser Foundation Group of Health Plans	20	Humana Inc.

(15) Life Insurance Companies in Japan

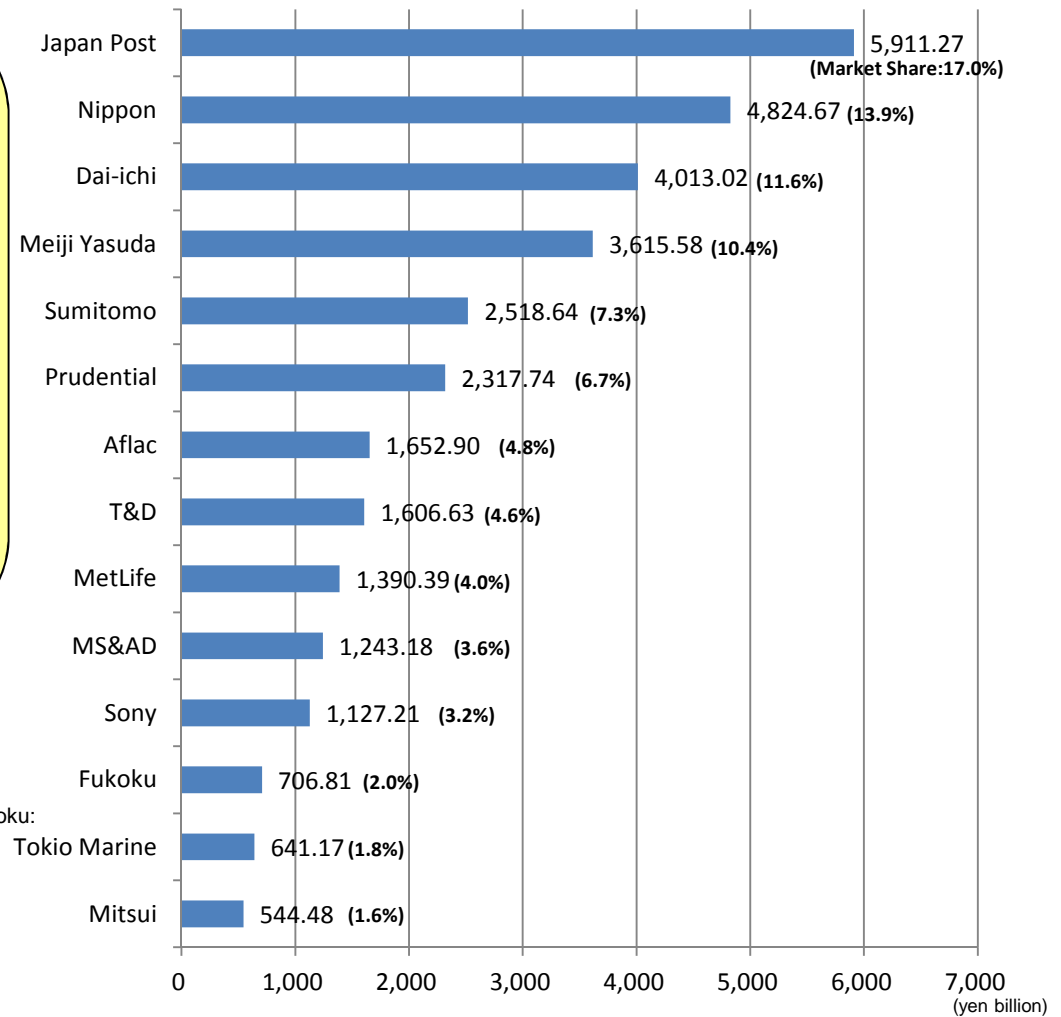
Total : 42 (as of October, 2014)



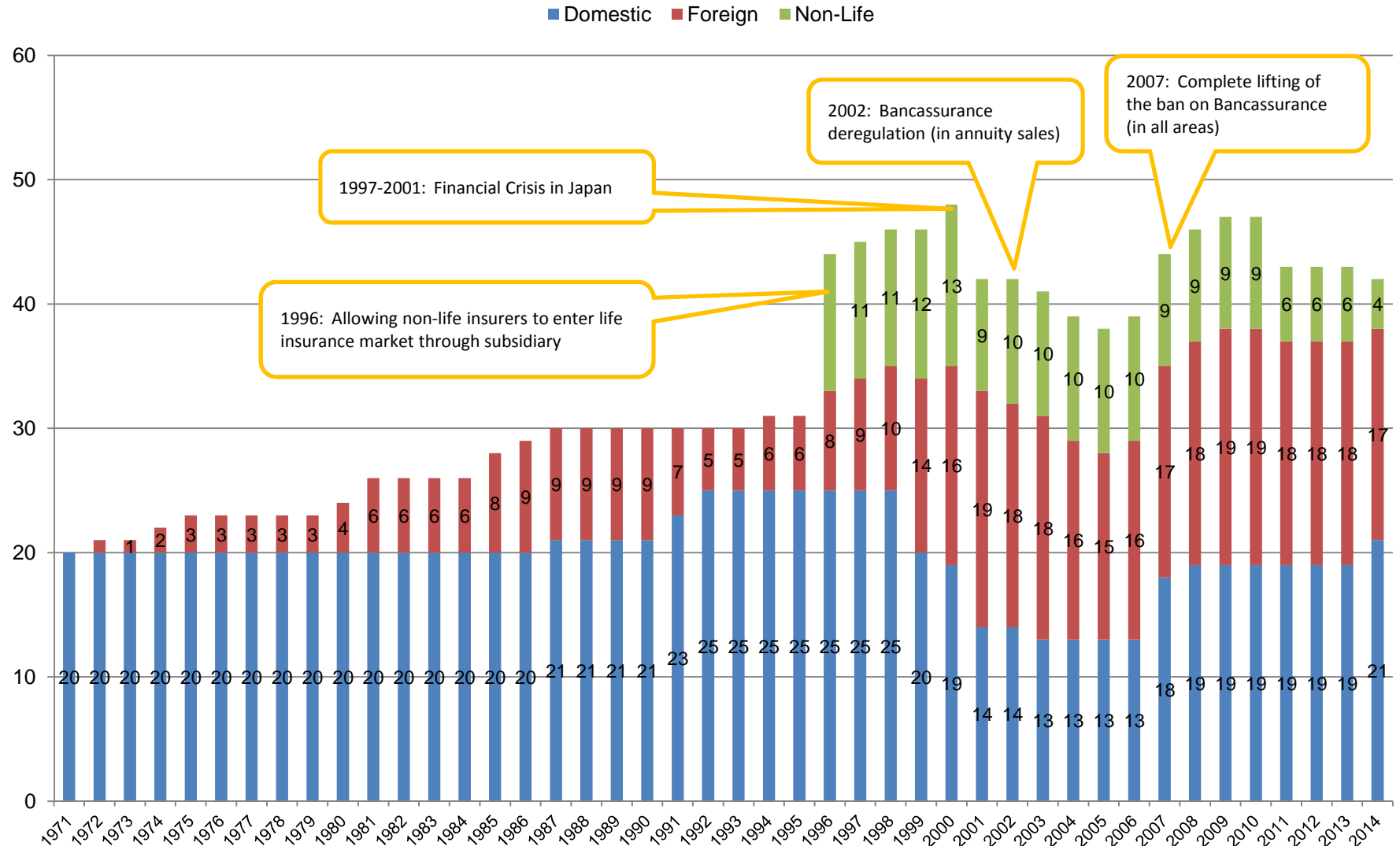
*Foreign stake of 50% or more

(Note) Dai-ichi: Dai-ichi+Dai-ichi Frontier; Prudential: Gibraltar+Prudential+PGF;
 Sumitomo: Sumitomo+Medicare;
 T&D: Taiyo+Daido+T&D; Sony: Sony+Aegon Sony; MS&AD: Aioi+Primary; Fukoku:
 Fukoku+Fukokushinrai; AXA: AXA Life+AXA Direct

Premium Income of Japanese Life Insurers in 2013

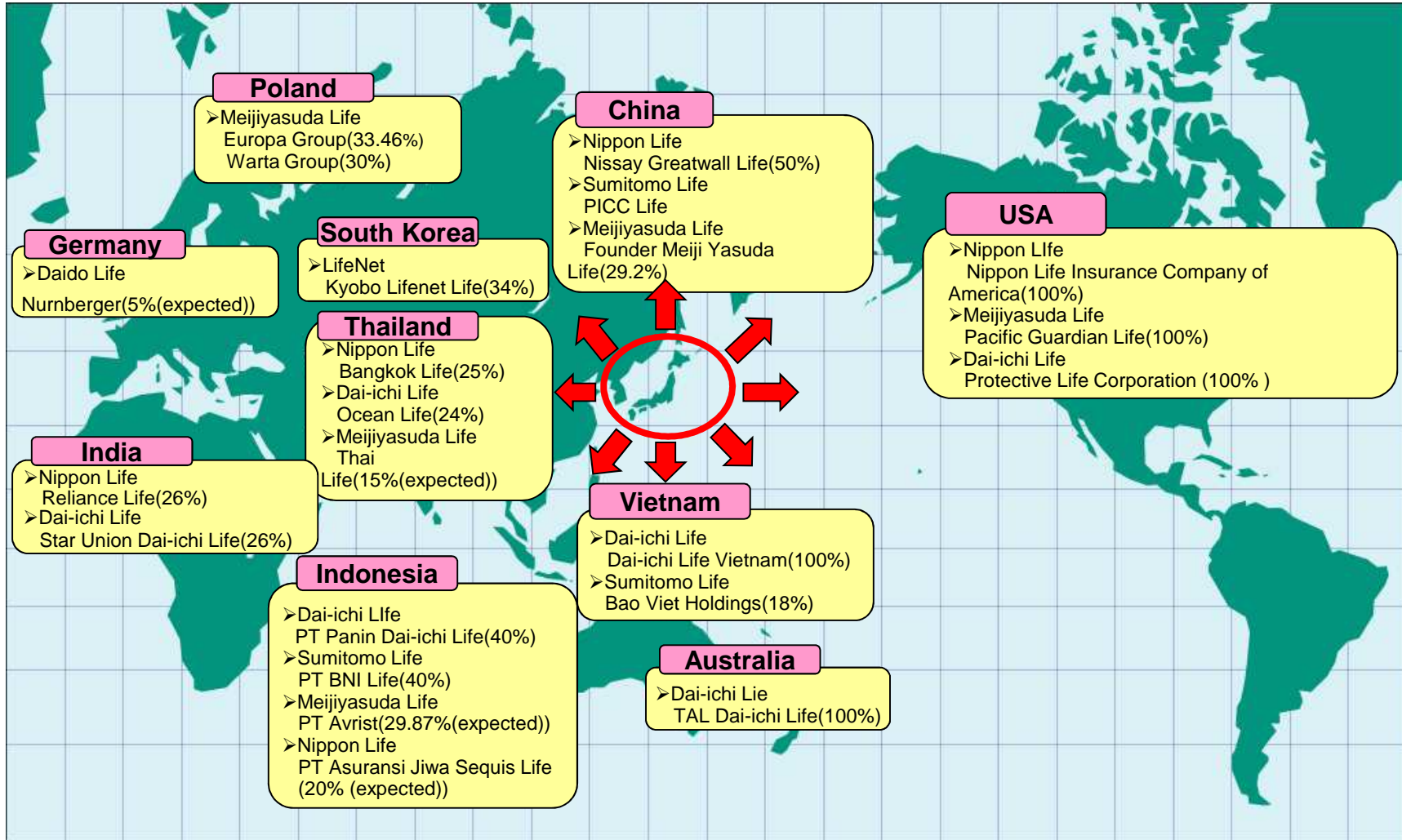


(16) Changes in Market Participants



Source: Financial Service Agency, The Life Insurance Association of Japan

(17) Insurance Business Operation in Overseas



III History of Life Insurance Industry in Japan

1. Before World War II

(1) During Meiji – Taisho Era (1898-1926)

- ◆ **Payment of insurance benefits for deaths from wars, Spanish flu and Great Kanto Earthquake**
⇒ Increased awareness of the importance of life insurance
- ◆ **Main products were changed from Whole Life Insurance to Endowment Insurance.**

- The first life insurance company, Meiji Life, was set up in 1881, followed by the setting up of Teikoku Life in 1888 and Nippon Life in 1889.
⇒ Many people started life insurance business following with the expansion of market, but most of them did not run its business in a statistical basis
- The Insurance Business Act was promulgated in 1900.
⇒ This led to enhance the supervisory system, and many companies suspended their business
- The first mutual life insurance company, Daiichi Life, was set up in 1902.
- The government started to operate the postal life insurance business in 1916 in order to provide insurance coverage to low income people.

(2) Early Showa Era (1926-1945)

- ◆ **Endowment still remained popular as a main product.**

- Main distribution channel had been initially agencies operated by persons of influence in local communities, but changed to tied sales agents.
⇒ This caused intensifying sales competition and failure of small and medium sized life insurers.
⇒ Major 5 life insurers (Nippon, Meiji, Teikoku, Daiichi and Chiyoda) began to have powers in the industry.
- The outbreak of WWII placed significant practical burdens on life insurers on a war footing.
- The defeat in war led to loss of assets abroad and sharp decrease in the value of securities held, which had devastating impacts on the asset position of life insurers. Besides, life insurers faced the need to make benefit payments for war deaths, the decrease of premium income due to low sales of new insurance contracts and the increase of operating costs due to inflation.
⇒ Life insurers faced a critical situation for its business operation.

2. The Growth of Japanese Life Insurance Industry in the Postwar Period

(1) During the Postwar Economic Reconstruction (1945-1958)

- ◆ The amount of policies in force had recovered in 1958 to the level of that before the WWII.
- ◆ With the progress of industrialization, the number of employees were increased and the welfare system of companies was developed.
 - ⇒ The need for group term life insurance was growing.

- In 1946, Financial Institutions' Reconstruction and Readjustment Act was promulgated, which required life insurers to separate their insurance accounts into new and old accounts. Under the Act, life insurers conducted the reconstruction and readjustment procedures under its new accounts.
Several stock insurance companies converted to mutual companies. The number of mutual life insurers increased to 16 companies.
- In 1946, monthly premium payment method, which had been initially allowed only to postal life insurance, was also allowed to private life insurance products offered by private life insurers.
- In 1947, "The Month of Life Insurance" was set to conduct promotion campaign for life insurance every November.
 - * The Month of Life Insurance: Upon the proposal by J.P. Royston, the Insurance Commissioner of GHQ, the board meeting of LIAJ passed the resolution to designate November as the Month of Life Insurance for the promotion of life insurance in September 1947. Since 1947, the promotion campaign for life insurance has been conducted every November as the industrial annual event, playing a key role to enhance penetration of life insurance.
- In 1948, the Act pertaining to regulation on insurance solicitation was promulgated.
(Intensifying sales competition→ Need for the regulation to prevent illegal insurance solicitation)
- Life insurers started to employ many women as tied sales agents who conduct insurance solicitation and collection of premiums in their assigned areas.

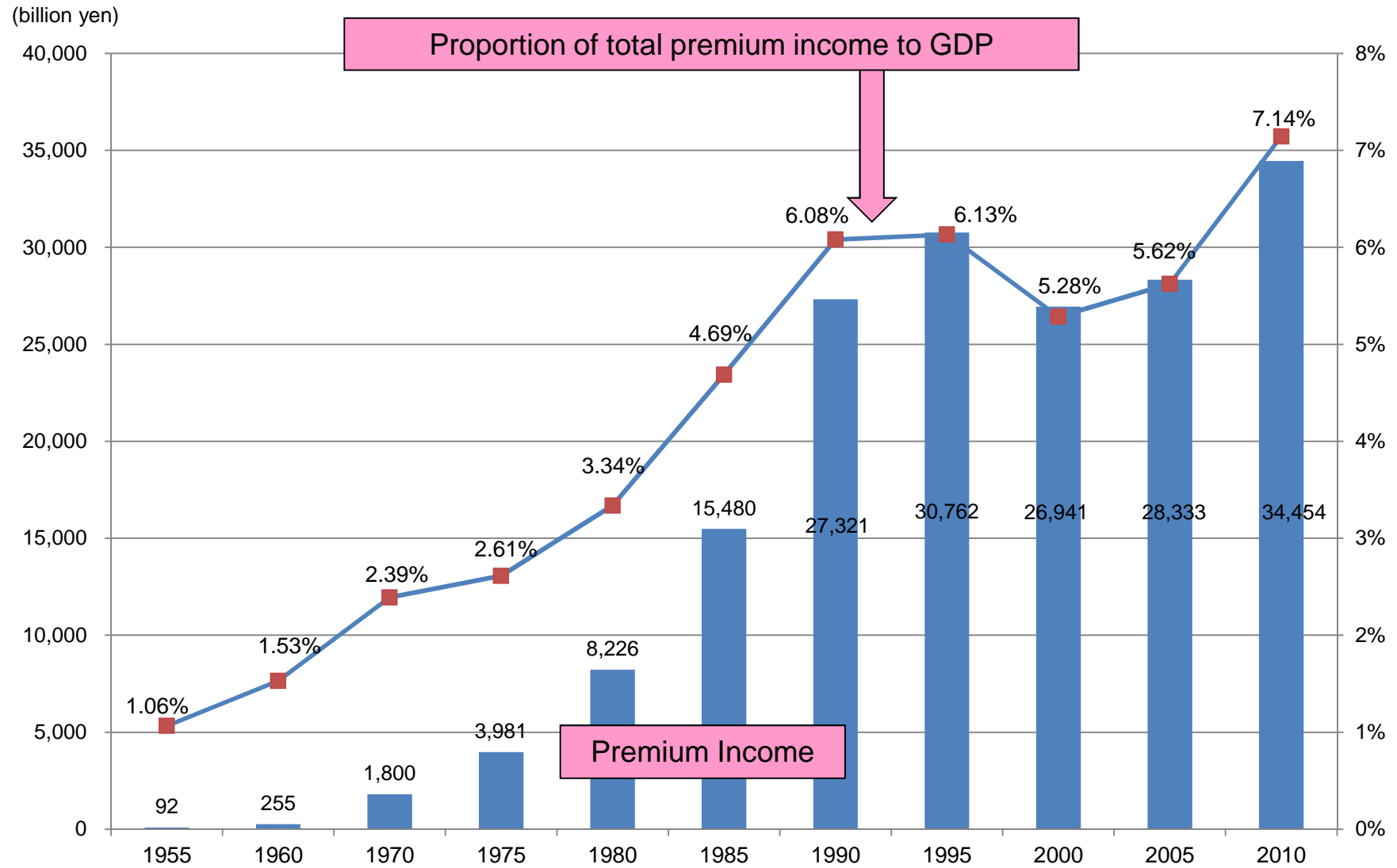
2. The Growth of Japanese Life Insurance Industry in the Postwar Period (continued)

(2) Postwar High-Growth Era (1958-1988)

- ◆ The collapse of the traditional large family structure (population concentration into urban areas and trend toward nuclear families), the low employment rate of women
⇒ The necessity for death coverage was widely getting to be acknowledged.
- ◆ The economic growth in Japan
⇒ Increase in disposable income
- ◆ The society where all Japanese are middle class
⇒ Increase in number of people who feel need for insurance coverage
- ◆ The success in door-to-door insurance solicitation by utilizing female workforce
- ◆ In 1955, endowment insurance with term rider was launched and became a main product.
- ◆ From the 1980s, whole life insurance with term rider became a main product.
- ◆ In the late 1980s, insurance products with savings element became popular in the context of high yielding.

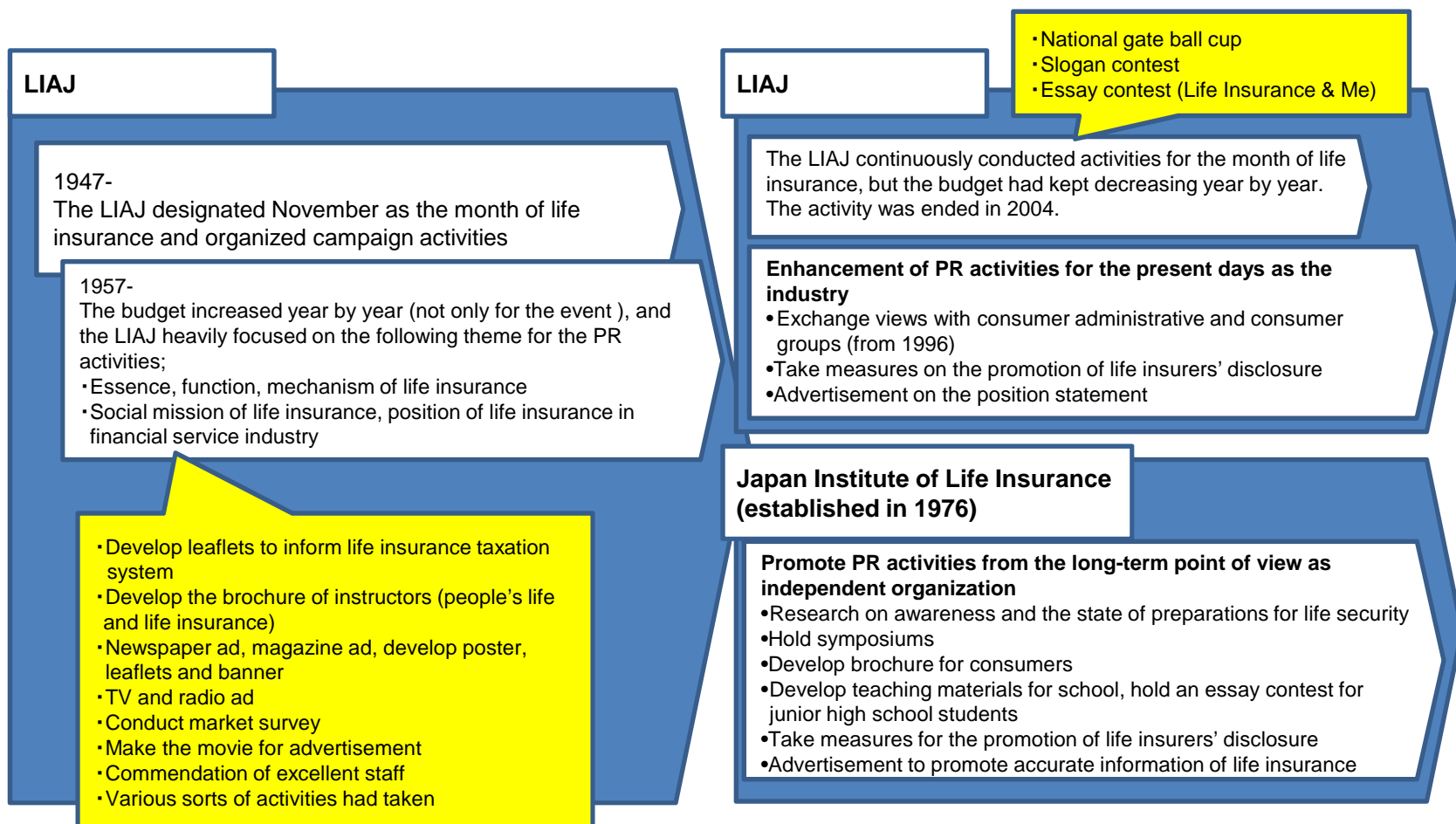
- Until the mid-1990s, the insurance industry continued its growth during the high economic growth in Japan.
- The relaxation of regulations (such as liberalization of dividend to policyholders, approval of management of assets abroad) was promoted.
- Mass hiring and mass turn-over of tied sales agents came to be acknowledged as a big problem.
⇒ In 1976, the three-year improvement program for the recruitment of sales agents was developed.
- In the 1980s, significant amount of unrealized profits was generated by the rise in land prices and stock prices.
⇒ This led to the increase in expected interest rates and the payment of high dividends.

Total Premium Income and GDP



The Month of Life Insurance

- ◆ The LIAJ designated November as the month of life insurance and organized campaign activities. Member companies follow this activities and made a lot of efforts on their insurance sales in this month.
- ◆ The LIAJ put a huge budget on this activities, making advertisement through the newspaper, radio, and TV to penetrate life insurance for people and call for the importance of life insurance.
- ◆ The Japan Institute of Life Insurance (JILI) was established in 1976, and the JILI took the promotion.



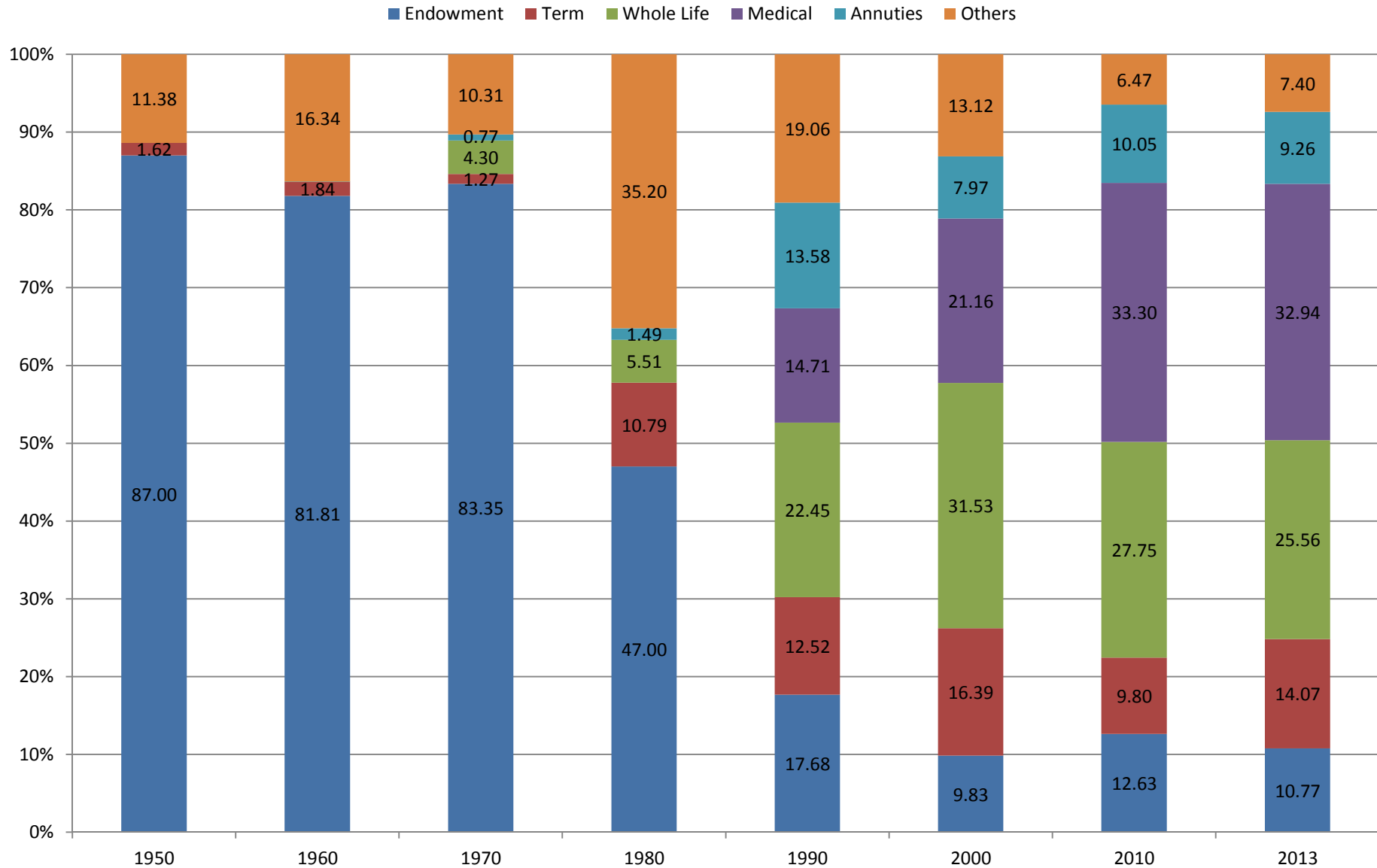
3. In Recent Years

(1) After the Collapse of Bubble Economy (1989-2005)

- ◆ Little growth in income
⇒ Need for cutting down household expenses ⇒ cancellation of insurance contracts or downsizing the coverage
- ◆ Trend to choose to remain single or postpone marriage
- ◆ Aging society with a declining birthrate
⇒ Declining the need for death coverage

- The amount of contracts started to decrease after reaching its peak in the mid-1990s.
- Significant damage was caused in asset management due to the decrease in stock prices, the increase of bad loans, and continued extremely low interest rates.
 - ⇒ “Negative spread” where the actual investment returns fall below the expected interest rates, pressed the business management of life insurers.
- In 1996, the Insurance Business Act was fully revised (such as allowing mutual business entries by life and non-life insurers through subsidiaries, maintaining the financial soundness of insurers, and introducing policyholders protection funds).
 - ⇒ Reduction in dividend rate, raise in premium amount
 - ⇒ 7 life insurers failed during 1997-2001.
- Development of bankruptcy resolution system, and review of systems to maintain the financial soundness of insurers.

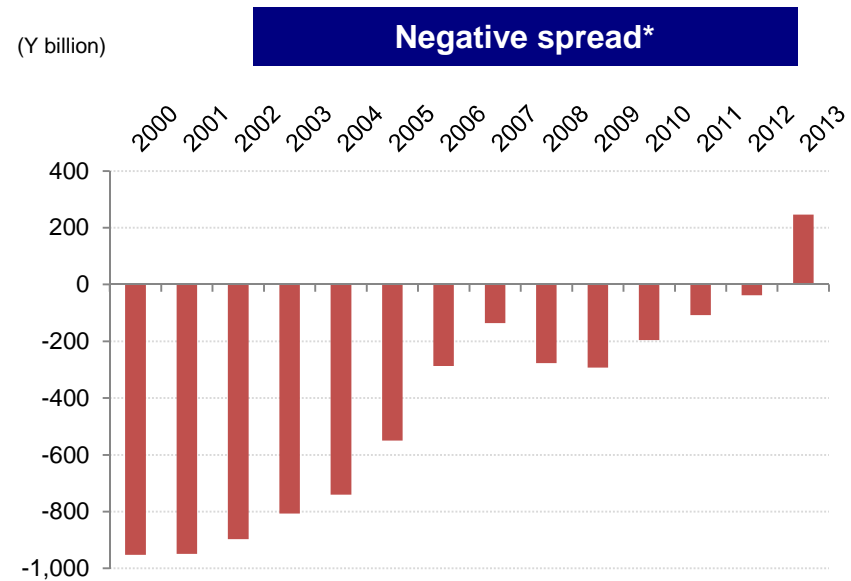
Changes in Product Portfolio (the number of new policies)



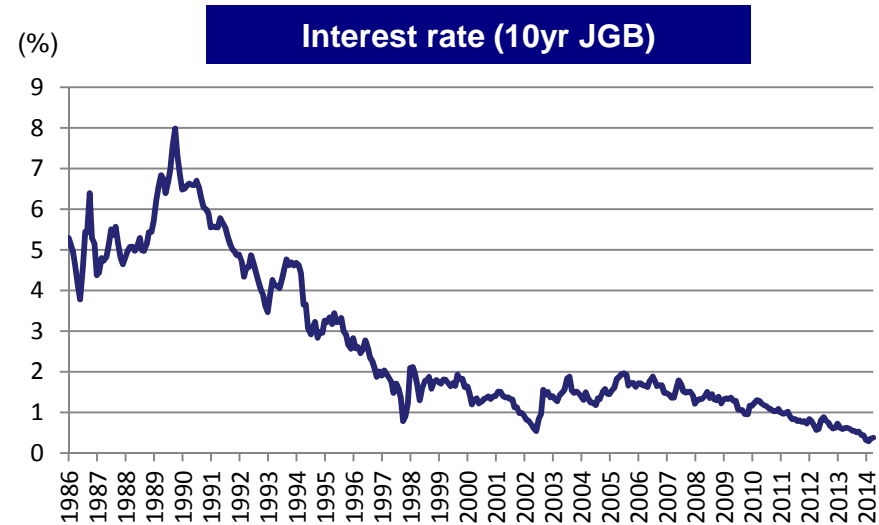
Source: The Life Insurance Association of Japan

Financial crisis in the 1990s

- Changes in economic situation
 - The Japanese economy maintained favorable growth until 1989 mainly due to the expanding domestic consumption. However, stock prices and land prices plunged after peaking in 1989.
 - Maintain low interest rate policy for a long time for monetary relaxation
- Impacts on the life insurance industry
 - The amount of both new business and business in force declined affected by the economic downturn
 - Lower investment yields caused large negative spread
 - Financial condition deteriorated due to falling stock prices
 - The ratio of stocks in insurers' portfolios was 22% in 1990



(Note) Total of major 4 companies (Nippon, Dai-ichi, Meiji Yasuda, Sumitomo)
 *Loss due to real portfolio yield rate fell below the expected interest rate



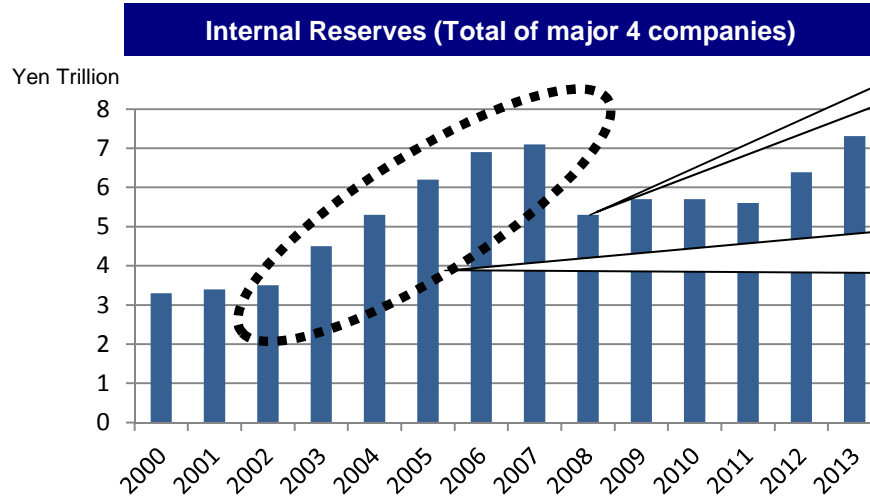
Source: Bank of Japan, Financial Service Agency

Bankruptcy cases of life insurers

	Nissan Life	Toho Life	Daihyaku Life	Taisho Life	Chiyoda Life	Kyoei Life	Tokyo Life	Yamato Life
Procedure	Administrative	Administrative	Administrative	Administrative	Judicial	Judicial	Judicial	Judicial
Excess liabilities (a)-(b)	Approx. 302.9 (April 1997)	Approx. .650 (June 1999)	Approx. 317.7 (May 2000)	Approx. 36.5 (August 2000)	Approx. 595 (October 13, 2000)	Approx. 689.5 (October 23, 2000)	Approx. 73.1 (March 31, 2001)	Approx. 64.3 (October 17, 2008)
Asset (a) (billion yen)	1,822.7	2,190	1,300	154.5	2,233	3,725	690	194.9
Liability(b) (billion yen)	2,125.6	2,840	1,617.6	191	2,828	4,414.5	763.2	259.2
Relief Insurance Company	Aoba Life (Prudential Life)	GE Edison Life (Gibraltar Life)	Manulife Life	Azami Life (PGF Life)	AIG Star Life (Gibraltar Life)	Gibraltar Life	T&D Financial Life	Prudential Financial Japan Life (PGF Life)
Aid amount by LIPPCJ (billion yen)	200	366.3	145	26.7	0	0	0	27.8
Changes in Policy								
Reduction of policy reserve	No reduction	10%	10%	10%	10%	8%	No reduction	10% (additional reduction for high-interest policy)
Post-reduction expected interest rate	2.75%	1.5%	1.0%	1.0%	1.5%	1.75%	2.6%	1.0%
Date of Resolution	October 1, 1997 Transfer of contract	March 1, 2000 Transfer of contract	April 2, 2001 Transfer of contract	March 31, 2001 Transfer of contract	April 20, 2001 Conversion to a stock company (Restart business)	April 3, 2001 Restart business	October 19, 2001 Conversion to a stock company (Restart business)	June 1, 2009 Restart business

Efforts of Industry

a) Accumulating Internal Reserves



Absorbed impacts of the Lehman Shock

Internal reserves was accumulated from ¥ 3 trillion to ¥ 7 trillion.

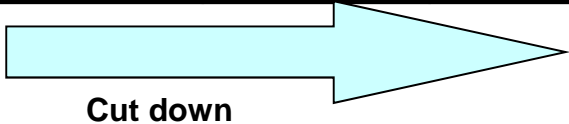
* Internal Reserves: Total Capital + Capital Reserves + Price Fluctuation Reserves + Accumulated Fund for Price Fluctuation + Risk Reserves + Contingency Reserves

(Note) **Revision in Distribution Regulation:**
In accordance with the partial amendments to Ordinance for Enforcement of Insurance Business Act in 2002, the bottom limit of the distribution rate of surplus to policy dividends was brought down from 80% to 20% in order to secure adequate internal reserves in 2002.

b) Stock Holding

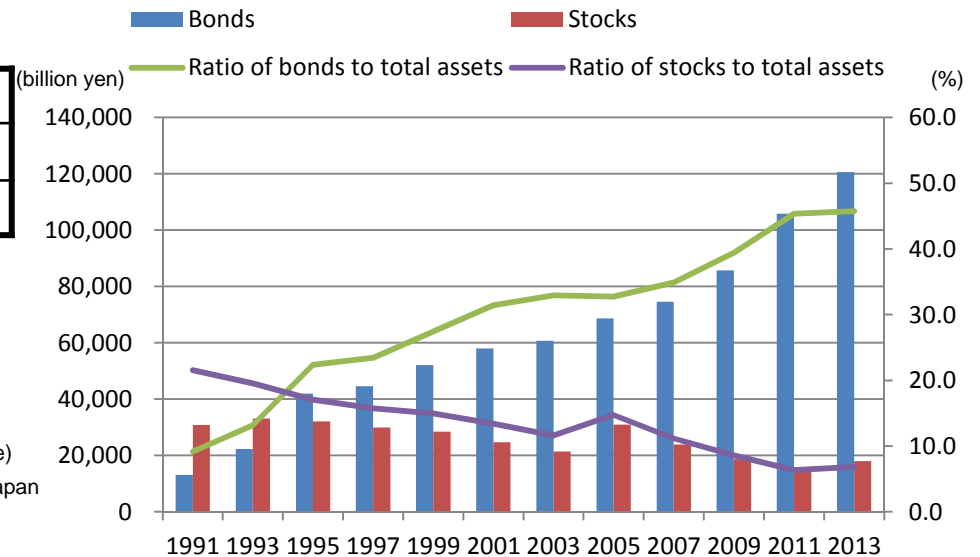
Total assets and stock holding

	1995	2000	2013
Total assets	187	191	263
Stocks	32 (17.1%)	29 (15.4%)	18 (10.6%)



(Excluding JP Insurance)
Source: The Life Insurance Association of Japan

Trends in Amount and Ratio of Bonds and Stocks



III History of Life Insurance Industry in Japan

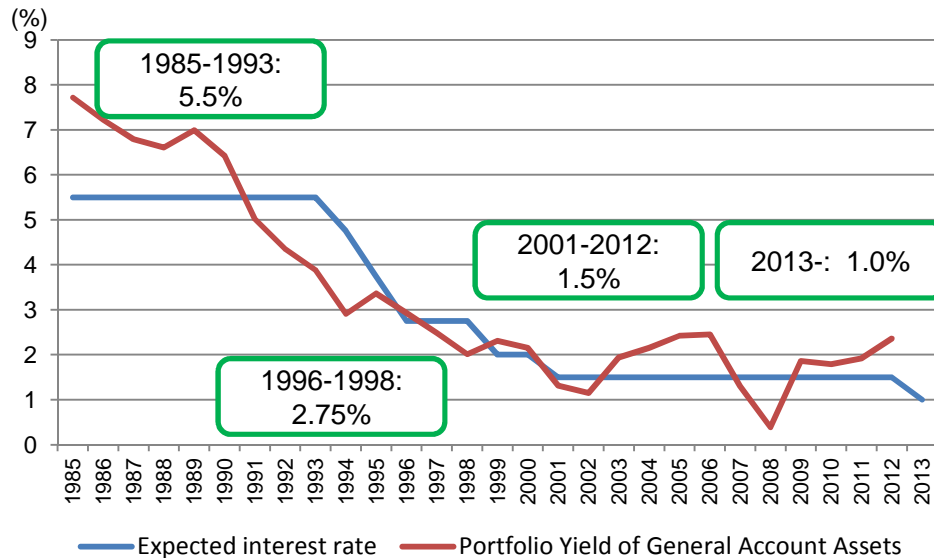
c) Duration of Bonds

Breakdown of JGB by time of maturity (Total of major 4 companies)

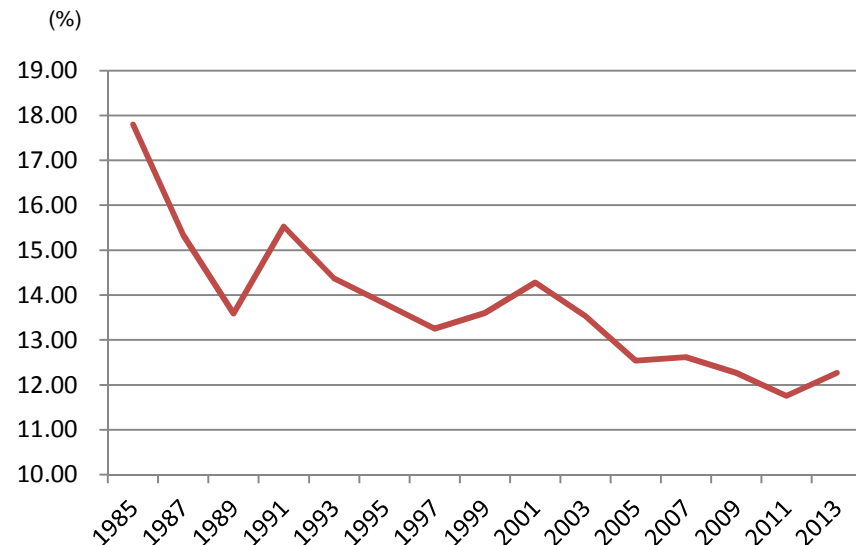
	2000	2013
Below 10yr to maturity	88.3%	19.9%
Over 10yr to maturity	11.7%	80.1%

Based upon disclosure of each company

d) Expected interest rate of new sales product



e) Reduction of operating expense ratio to total premium income



Source: FSA, LIAJ

f) Accumulation of additional policy reserves

- In order to ensure further financial soundness and dissolve negative spread, some insurers started to accumulate additional policy reserves

g) Changes in sales products

- Shifted from saving type products (such as whole life insurance & endowment) to protection type products (such as medical insurance).
- Started sales of adjustable interest funding life insurance

(2) In Recent Years (2005~)

- ◆ **Diversified consumer needs and behaviors**
- ◆ **From death coverage-oriented to living coverage-oriented (medical and post-retirement security)**
 - ⇒ **Diversification of insurance products**
- ◆ **Diversified distribution channels (e.g. bancassurance, independent agencies or internet)**

- The problems regarding the payment of insurance claims came to light from 2005.
 - ✓ A through review of the payment process of insurance claims
 - ✓ Improvement of its business management reflecting the complaints and opinions from outside
 - ✓ Customer-friendly description and products
 - ⇒ Improvement of customer satisfaction with life insurance products and services
- Responses to the Great East Japan Earthquake

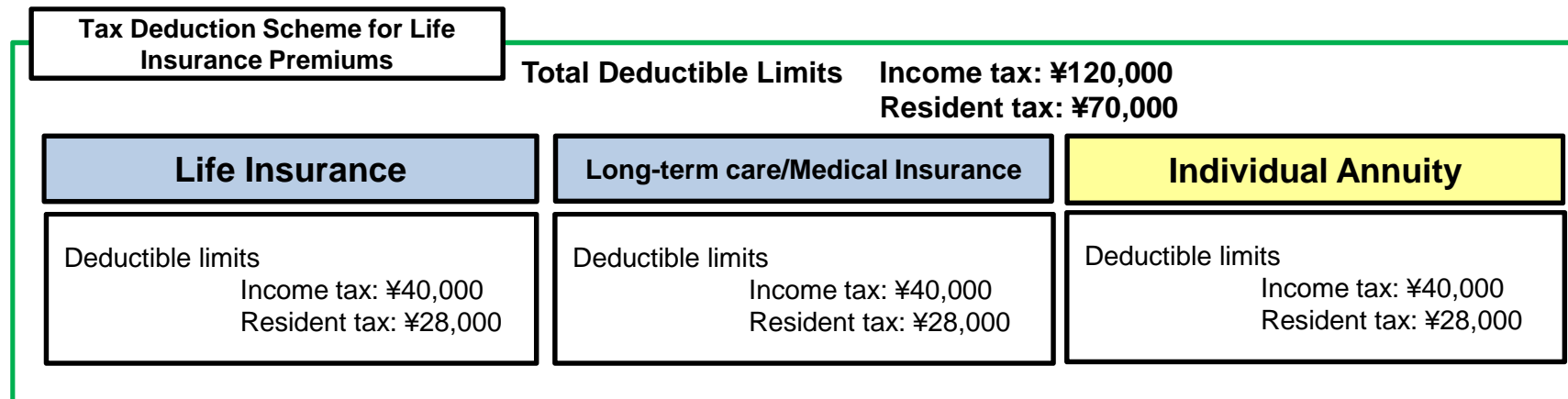
Life Insurance Premium Deduction

Tax Deduction for Life Insurance Premiums

Tax deduction scheme for life insurance premiums is a preferential tax treatment which deducts a certain amount of premium paid from the policyholder's income, which leads to reduction of income tax and resident tax.

Background to establish this scheme

- ✓The scheme was established in 1924 and was reestablished in 1954 as a part of promotion measures for capital accumulation, once abolished in 1947 from the perspective of simplification of the procedures.
- ✓ In 1984, the tax deduction scheme for individual annuity was newly established with the aim of "promotion of self-help efforts for stability of post-retirement life" and "promotion of mutual assistance for post-retirement life."
- ✓In 2010, new tax deduction scheme was established, which applies tax deduction newly to premiums of long-term care/medical insurance contracts concluded on or after 1 January 2012 in addition to that of life insurance contracts and individual annuity contracts.



Tax Exemption for Death Benefits

Tax exemption is applied to death benefits with the limits of "¥5 million yen multiplied by the number by legal successor" since the death benefit is considered the inheritance to provide coverage for deceased's family.

IV The Life Insurance Association of Japan

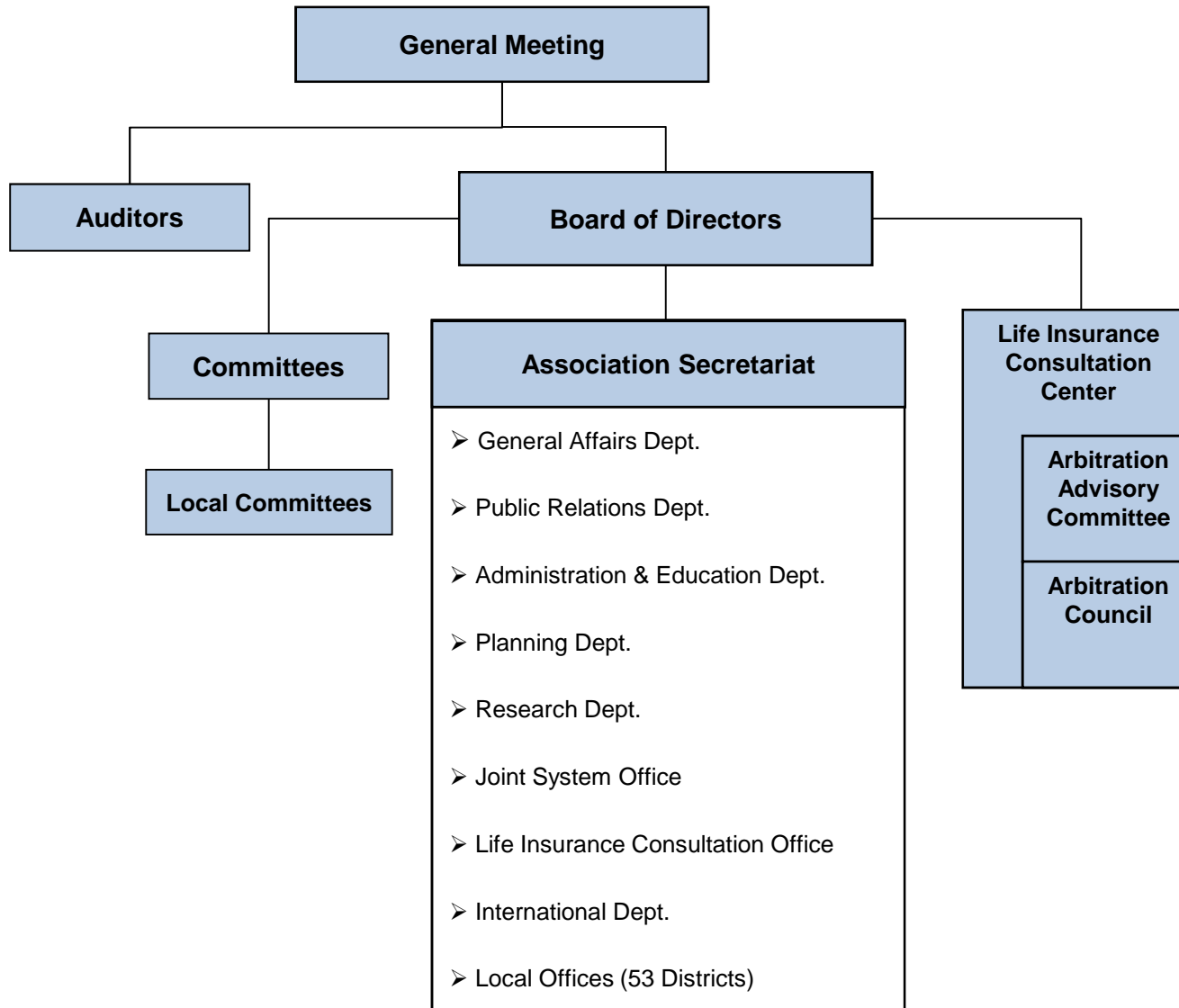
1. Overview of LIAJ

Name	The Life Insurance Association of Japan (LIAJ)
Foundation	The LIAJ was incorporated on 7 December 1908
Member Company	42 Companies (as of Apr. 2015) The LIAJ consists of all life insurance companies which are licensed under the Insurance Business Law. (Enrollment is not obligated by the law.)
Board Member	Representatives of life insurance companies and the association's full-time executives
Number of offices	54 offices The main office in Tokyo and 53 branch offices in all the prefectures.
Purpose	To promote the sound development of the life insurance industry in Japan, to maintain its liability, and thereby to contribute to improving quality of national life.
Main Activities	<ul style="list-style-type: none">▪ Representing the opinions of life insurance industry▪ Conducting research and taking statistics▪ Development of voluntary guidelines▪ Education▪ Public relations▪ Social contribution▪ Consultation and Alternative Dispute Resolution▪ Operating Life Insurance Network Center

<History>

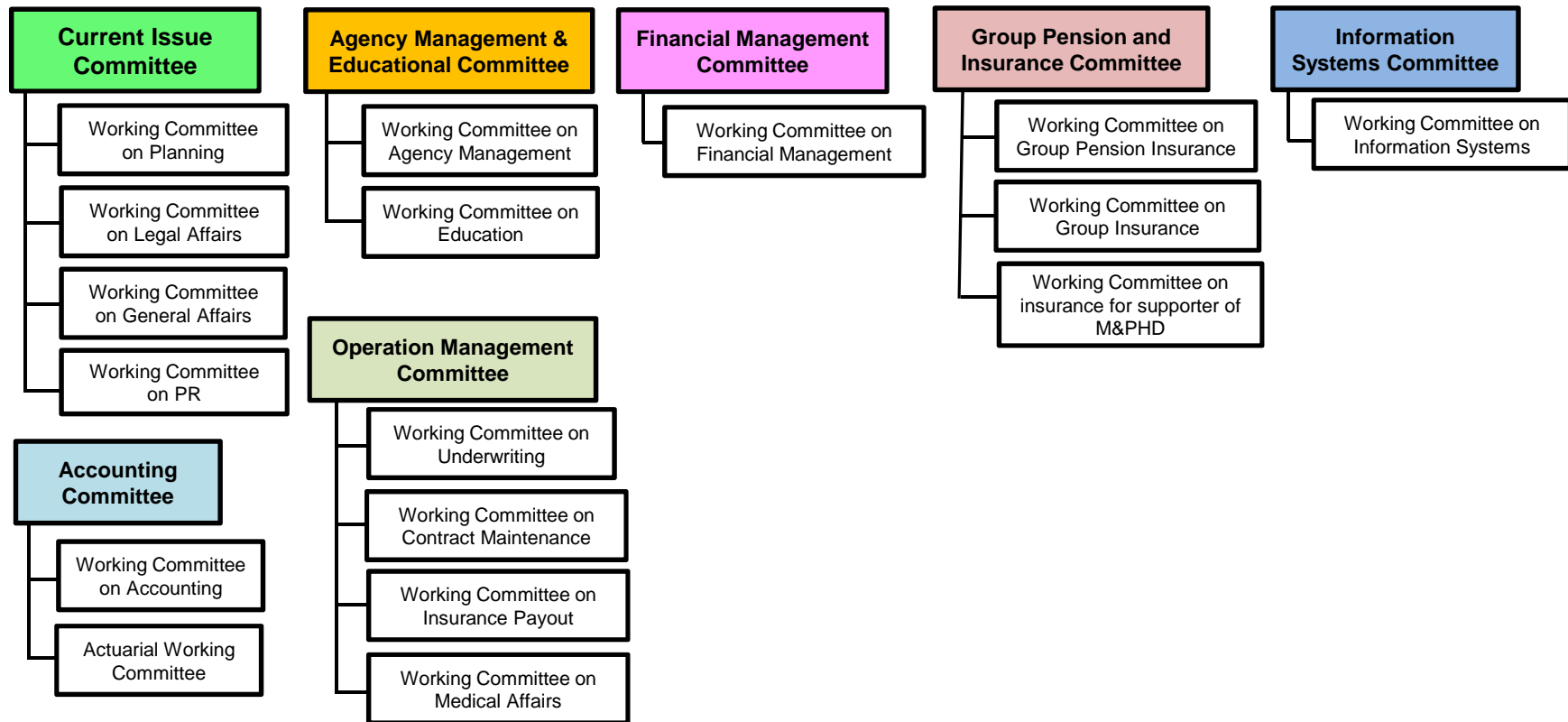
Year	Item
1898	The Forum of Japanese Life Insurers was founded.
1905	The Forum of Japanese Life Insurers was reorganized into the Association of Japanese Life Insurers.
1908	The Association of Japanese Life Insurers was authorized as an incorporated association.
1942	The Life Insurance Control Association was founded. The Association of Japanese Life Insurers was renamed the Life Insurance Network, and most of its operations were transferred to the Life Insurance Control Association.
1945	The Life Insurance Council of Japan was founded to take over the operations of the Control Association after it was dissolved. The Life Insurance Network was renamed the Life Insurance Association of Japan (LIAJ). All the operations of the Life Insurance Network were transferred to the LIAJ.
2008	The LIAJ marked the 100th anniversary since its foundation.
2014	The LIAJ made a transition from an incorporated association to a general incorporated association.

■Organization Chart:



<Organization of Association>

- ◆ There are seven committees under the Board of Directors because the wide range of technical issues including solicitation and conclusion of insurance contract, maintenance and insurance payment, asset management and accounting are required to be discussed. Each committee is looking into its technical issues.
- ◆ The committees consist of representative from all member companies since the committees deal with the issues related to the entire industry.



2. Role of LIAJ

(1) Research and study of theories and practices relating to life insurance

- a. Research on taxation and consumer protection measures relating to insurance
- b. Research on insurance regulations and supervisions of other countries in order to enhance the infrastructure of life insurance industry in Japan
- c. Research on matters of laws and accounting relating to life insurance business

(2) Representing the Opinions of Life Insurance Industry

- a. Policy recommendation on tax breaks relating to life insurance contracts and for fulfillment of regulatory reform requests
- b. Representing the opinions on act amendments proposed by FSA and relevant ministries
- c. Representing the opinions and submitting recommendations to international organizations such as IAIS
- d. Representing the opinions on deliberations and exposure drafts of IASB

(3) Developing voluntary guideline

In order to fulfil social responsibilities and business roles, the LIAJ has defined a code of conduct for life insurance companies and their management/employees to follow and provides voluntary guidelines for practical handling and points to consider, to be reflected in their operations.

<List of voluntary guideline>

- For appropriate representation of life insurance products
 - Guidelines for Appropriate Representation of Life Insurance Products
 - Guidelines for System related to Reviewing Materials for Soliciting Life Insurance Products
- For appropriate insurance payouts
 - Guidelines for Appropriate Insurance Payout Procedures
 - Guidelines for Advising Customers on How to File a Claim
 - Guidelines for Developing Medical Certificates
 - Guidelines for Insurance Claim Procedures on Great East Japan Earthquake
- For appropriate solicitation
 - Guidelines for Policy Overview
 - Guidelines for Warming Information
 - Guidelines for Pre-contact Documentation
 - Guidelines for the Sales of Life Insurance with Market Risks
 - Guidelines for Obtaining Faithful Disclosure from Customers
 - Guidelines for Appropriate Application or Underwriting of Life Insurance Policies Targeting Minors as the Insured
- For serving the Elderly
 - Guidelines for Life Insurance Services for the Elderly
- For personal information protection
 - Procedural Guidelines for Personal Information Protection in the Life Insurance Business
 - Practical Guideline for Life Insurers' Security Control Measures to Secure Personal Data Protection

(4) Life Insurance Consultation Center

The LIAJ was designated by the FSA as a designated dispute resolution body based on the Insurance Business Act, and therefore handles complaints and resolves disputes related to life insurance business and foreign life insurance business.

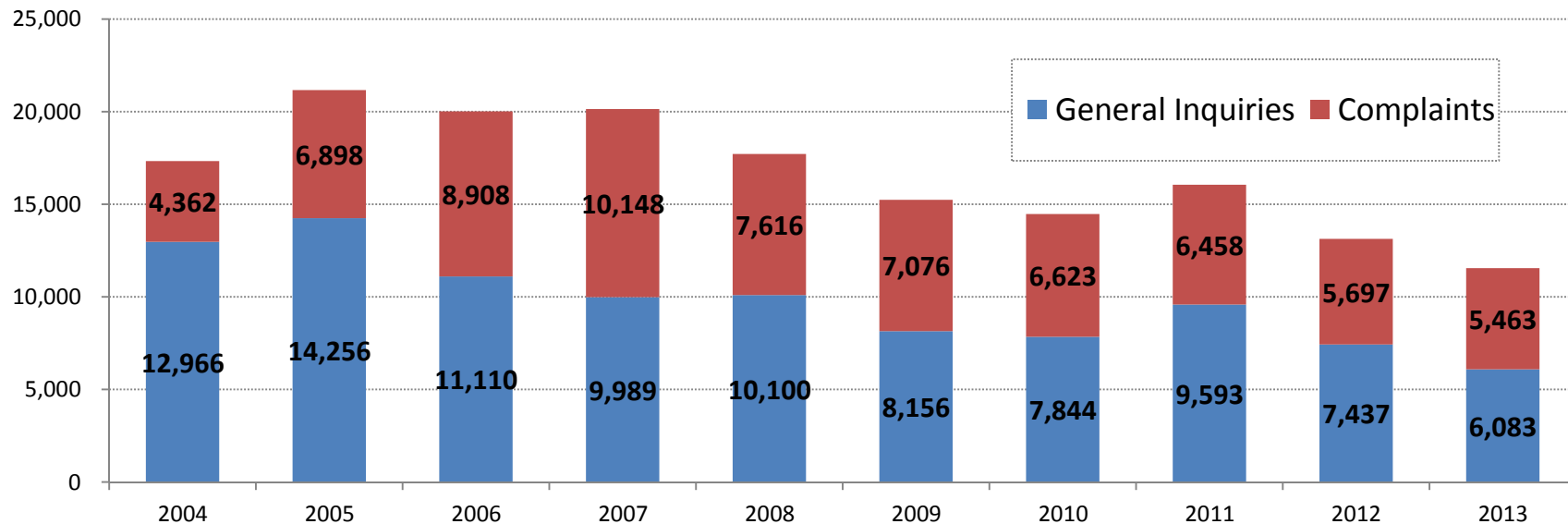
In order to conduct those activities, the Life Insurance Consultation Center was established within the LIAJ. The Center and its offices provide consultation and receive inquiries or complaints from policyholders or consumers.

*Financial ADR system: Alternative conflict resolution procedures in financial sectors. The competent authority shall appoint the dispute resolution organization based on the law (came into force in October 2010)

1) Appropriate Handling of Inquiries and Complaints

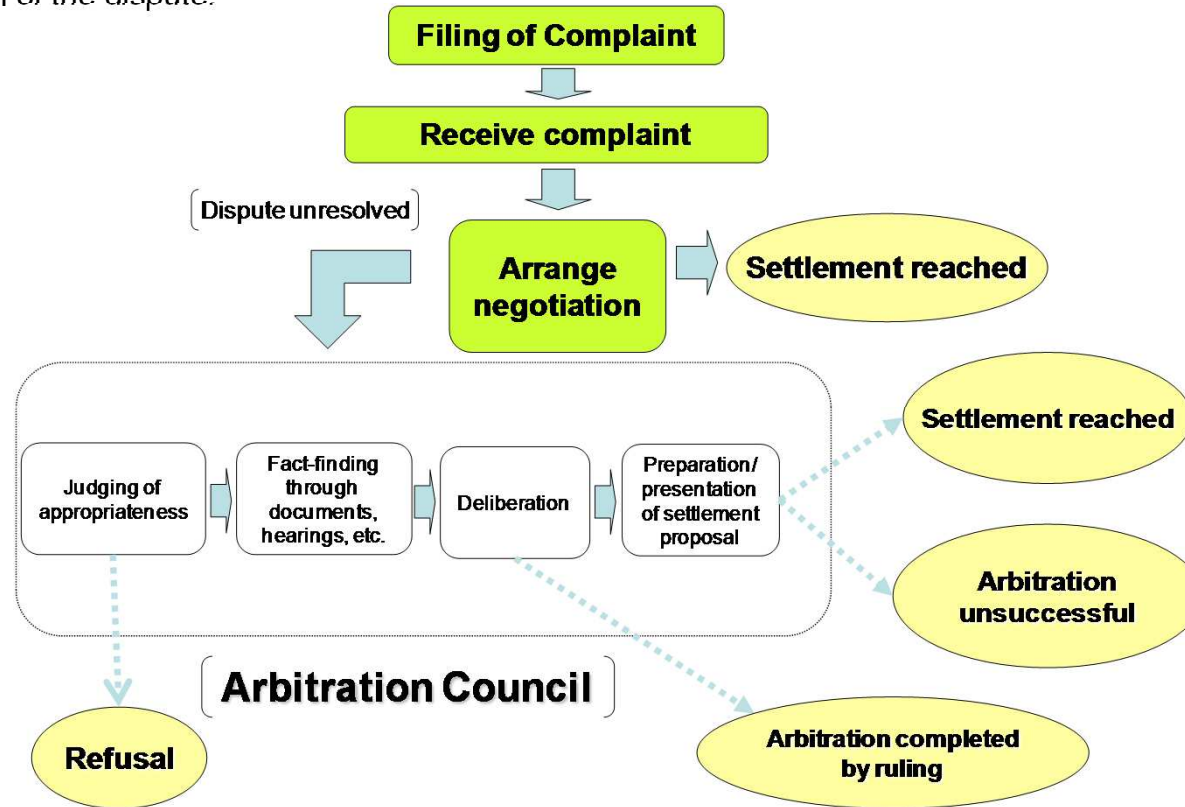
In the Life Insurance Consultation Center, expert consultants deal with inquiries and complaints from a neutral position. When the Center receives a request to resolve a complaint, it strives to reach an early settlement such as by making requests for a settlement and by mediating settlements with the life insurers involved.

<Number of inquiries and complaints>



2) Operation of Arbitration Council

When a customer files a complaint with the Center, the Center arranges the negotiation between the life insurer involved and the customer to reach a settlement. In principle, if they cannot reach a settlement within one month, the Center convenes the Arbitration Council to resolve the dispute. The Arbitration Council consists of 10 members (4 lawyers, 4 consumer advisors and 2 staff of the Life Insurance Consultation Center) and strives to achieve an appropriate resolution of the dispute.

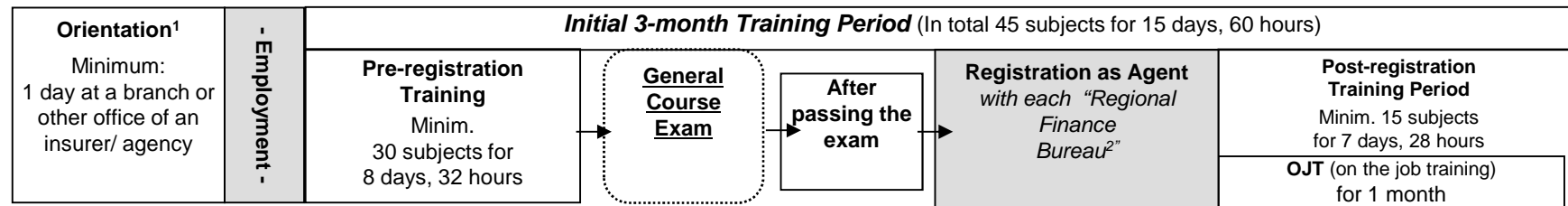


<Number of Filings for Procedures of the Arbitration Council>

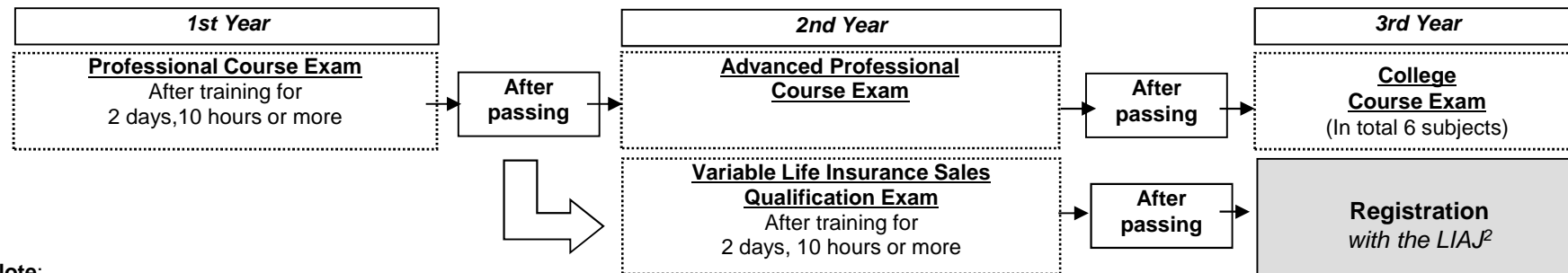
FY	2008	2009	2010	2011	2012	2013
Number	82	122	172	260	208	202

(5) Common-to-Industry Educational System for Life Insurance Solicitors

Under the laws and regulations, tied sales agents and sales representatives at agencies need to be registered with the FSA to sell life insurance products as life insurance solicitors. The LIAJ administers the General Course Exam to check the knowledge, quality and capacity of examinees required for their registration. The LIAJ also operates the examination system for the “Professional Course”, “Advanced Professional Course” and “College Course” in order to better meet policyholders’ needs. In addition, the LIAJ administers the Variable Life Insurance Sales Qualification Course Exam for insurance solicitors to sell variable life insurance/annuities.



Trainings and Exams after being employed³



Note:

1. In the case of agencies, they will hold a briefing session for business consignment before pre-registration training starts.
2. The registration after passing the General Course Exam will be made at each examinee’s Regional Finance Bureau, while the registration after passing the Variable Life Insurance Sales Qualification Exam will be made at the LIAJ.
3. This is a suggested sample training schedule to acquire sales skills in three years.

(6) Anti-Moral Hazard Measures

In order to promote sound management of a life insurance system, the industry is making efforts to prevent moral hazards such as fraud related to hospitalization benefits and fraudulent procurement of insurance money. Main countermeasures are as follows.

1) Policy Data Registration System

A policy data registration system was established to help detect those trying to receive insurance claims illegally by enrolling in several insurance policies for short periods. When life insurance companies receive an insurance policy (including riders like death benefit and hospitalization benefit), the relevant data of policyholders may be stored at the registration center within the LIAJ. Life insurance companies refer to the registered details to judge whether to accept the contract or whether to pay claims for death or hospitalization benefits.

2) Policy Data Inquiry System

Life insurance companies and National Mutual Insurance Federation of Agricultural Cooperatives (*Zenkyoren*) have cooperatively operated the Policy Data Inquiry System aiming to contribute the continuous development of sound life insurance and cooperative system since April 2002. Under the system, the data held by National Mutual Insurance Federation of Agricultural Cooperatives and the data registered in the Policy Data Registration System by the LIAJ can be cross-referenced. They refer to the registered details to judge whether to accept the contract or whether to pay claims for death or hospitalization benefits.

3) Cross Reference System for Assessing Insurance Claims

Upon receiving insurance claims, participating insurance companies and three co-operatives (National Mutual Insurance Federation of Agricultural Cooperatives, National Federation of Workers and Consumers Insurance Cooperatives and Japanese Consumers' Co-operative Union) cross-reference other organizations' data on policyholders. They then use the information when deciding whether to accept a claim from a policyholder or to terminate or cancel an existing contract.

(7) Others

➤ Social Service Activities

- Activities to Enhance Family Bonds by Reading Picture Books to Children
- Activities to Enhance Family and Community Bonds through Environmental Education
- Financial Aid for Child-rearing Support Organization
- Scholarship Program for Privately-funded International Students in Japan
- Scholarship Program for Education of Care Workers

➤ Operating Life Insurance Network Center

The life insurance industry established an industry-wide network called the Life Insurance Network Center, or LINC in 1986. This network enables insurers to provide more efficient services and to improve information security in the insurance industry, and also reduces the burden of clerical work at a client company.

With several improvements to the network system since its establishment, the Center currently operates the following 12 systems.

- Inter-network settlement system among member companies
- Data exchange system on individual policies whose monthly premiums are collected through payrolls
- Data exchange system on asset-formation insurance
- Registration systems on medical care insurance
- Registration system on licensed life insurance solicitors
- Registration system on policy data
- Data distribution system on National Pension Fund insurance
- Data exchange system on life insurance business statistics
- Data exchange system on joint Employee's Pension Fund Insurance Report
- Cross referencing system for assessing insurance claims
- Data exchange system on corporate pension plans among principal companies
- Statistics collection system on incidence rates including mortality

3. Response to the Great East Japan Earthquake

Damage

[As of April 10, 2015]

Dead	15,891
Missing	2,579

Source: National Police Agency

- Extensive damage (3 pref.)
- Severe damage by tsunami
- ⇒ Many missing
- Fukushima nuclear power plants

Payment of Insurance Benefits

(\$ billion)

Date	No.	Amount (Death Benefits)	Accident Death Benefits
2013/3/31	21,027	159.9	50.4

(1) Actions according to each policyholder's situation

◆ To provide livelihood supports and peace of mind for affected people

- Development of Fundamental Policy
- Contributing Donation (300 million yen)

<Measures on life insurance contracts>

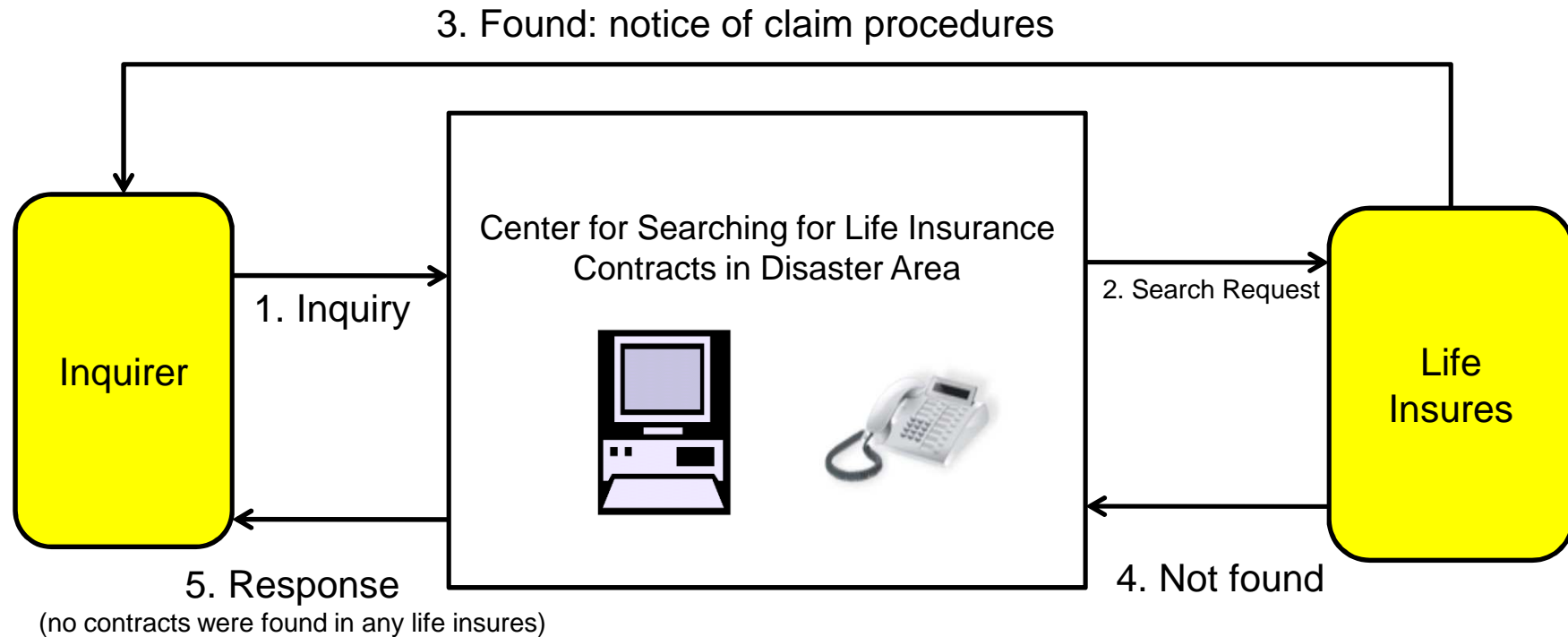
- Non-application of earthquake exclusion clauses
(Full payment of accident-related insurance benefits under accident riders)
- Extension of grace period for premium payments
- Simple and quick payment of insurance benefits and policy loans

◆ Inquiries and Procedures of Insurance Contracts

- Receiving inquiries at the Life Insurance Consultation Center
- Development of the Guidelines on Insurance Payouts
 - Standards for Simple Treatment of Insurance Payouts
 - Special Treatment of Hospitalization (deemed hospitalization)
- Operation of Center for Searching for Life Insurance Contracts in Disaster Areas

(2) The System of Searching for Life Insurance Contracts in Disaster Areas

◆The “Center for Searching for Life Insurance Contracts in Disaster Areas” was established on April 1, 2011, and all member companies are requested to investigate any relevant insurance contracts for people who have family members or relatives that are dead or missing due to the Great East Japan Earthquake and who do not have any evidence of their insurance contracts because their home was either washed away or burned down.

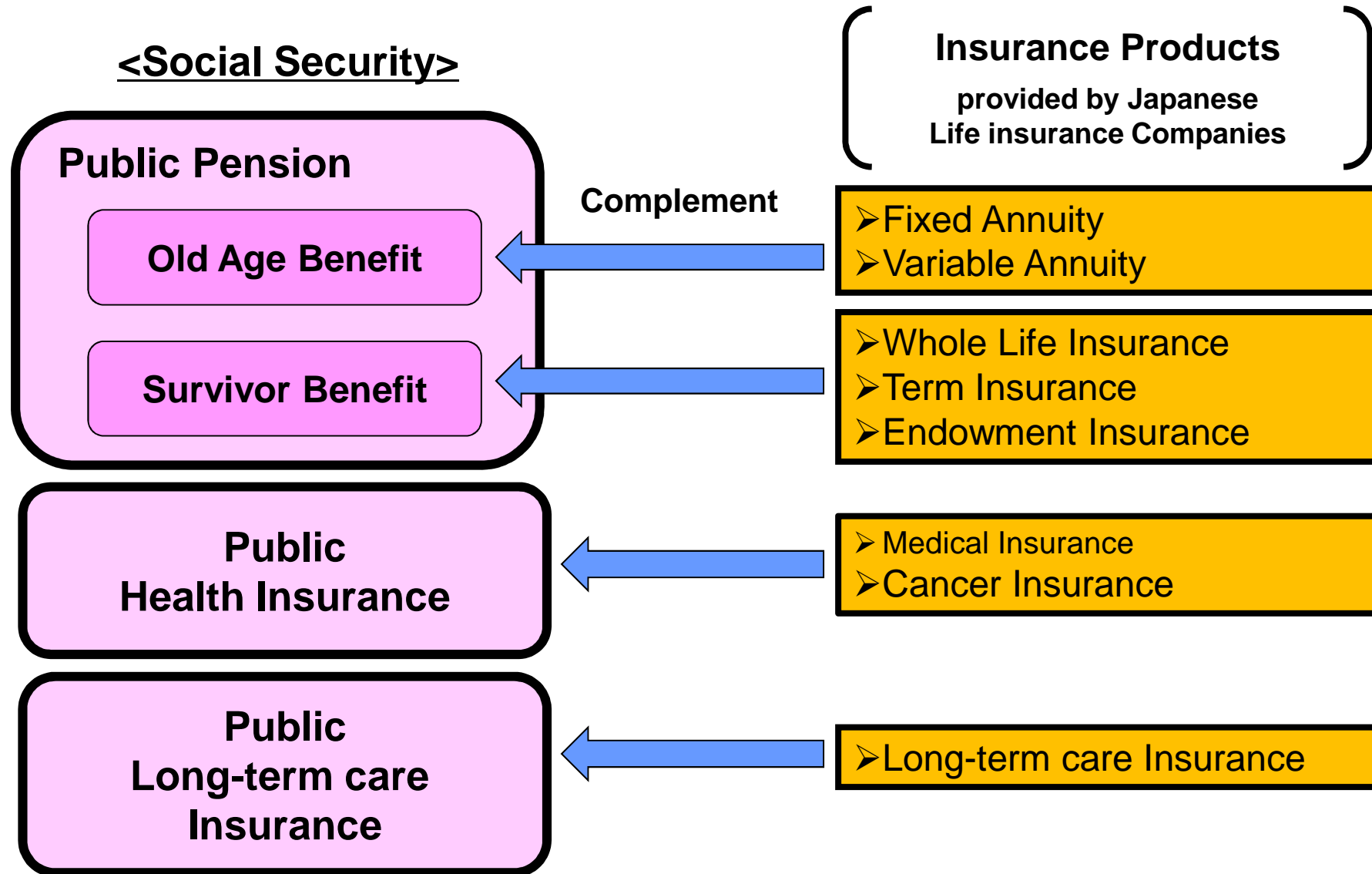


(3) System to ensure payment of insurance benefits without fail

- ✓ Safety confirmation of customers and sharing best practices of member companies
- ✓ Request for disclosure of family and Resident Registers
- ✓ Establish the Industry-Wide Database
- ✓ Practical supports for the insurance payouts for missing
- ✓ Establish and operate Life Insurance Support Network for the Disaster Orphans

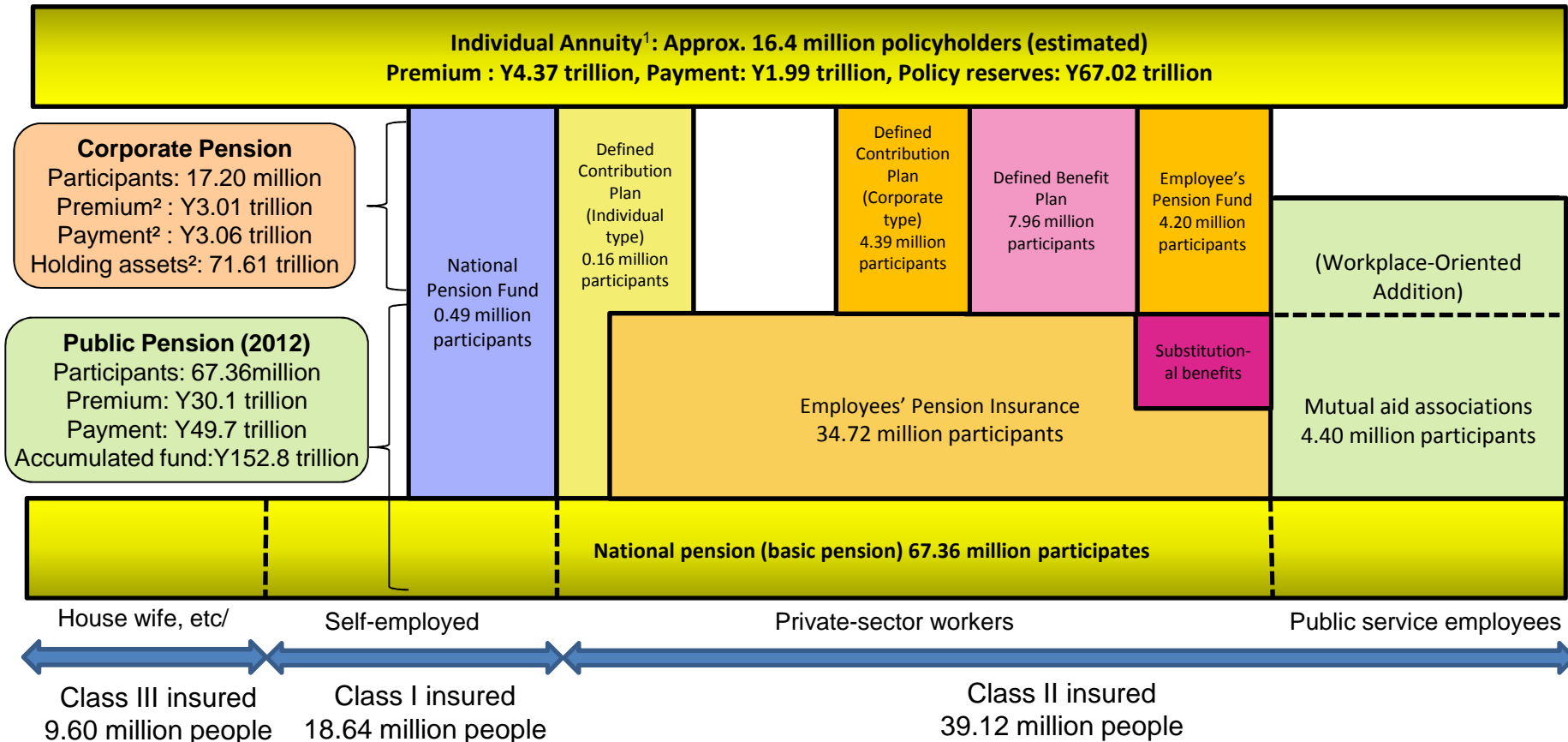
Appendix

(1) Overview of Social Security System



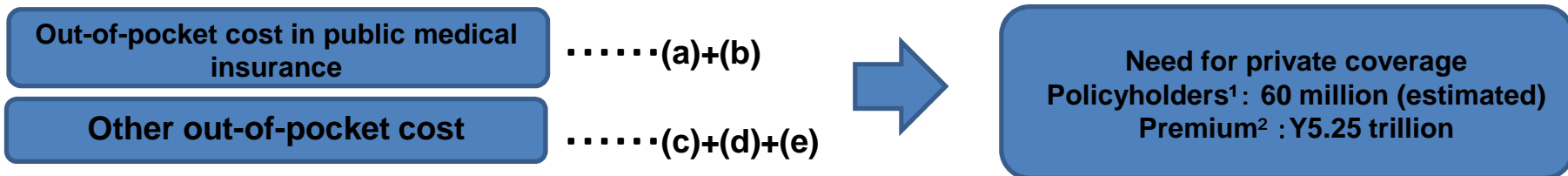
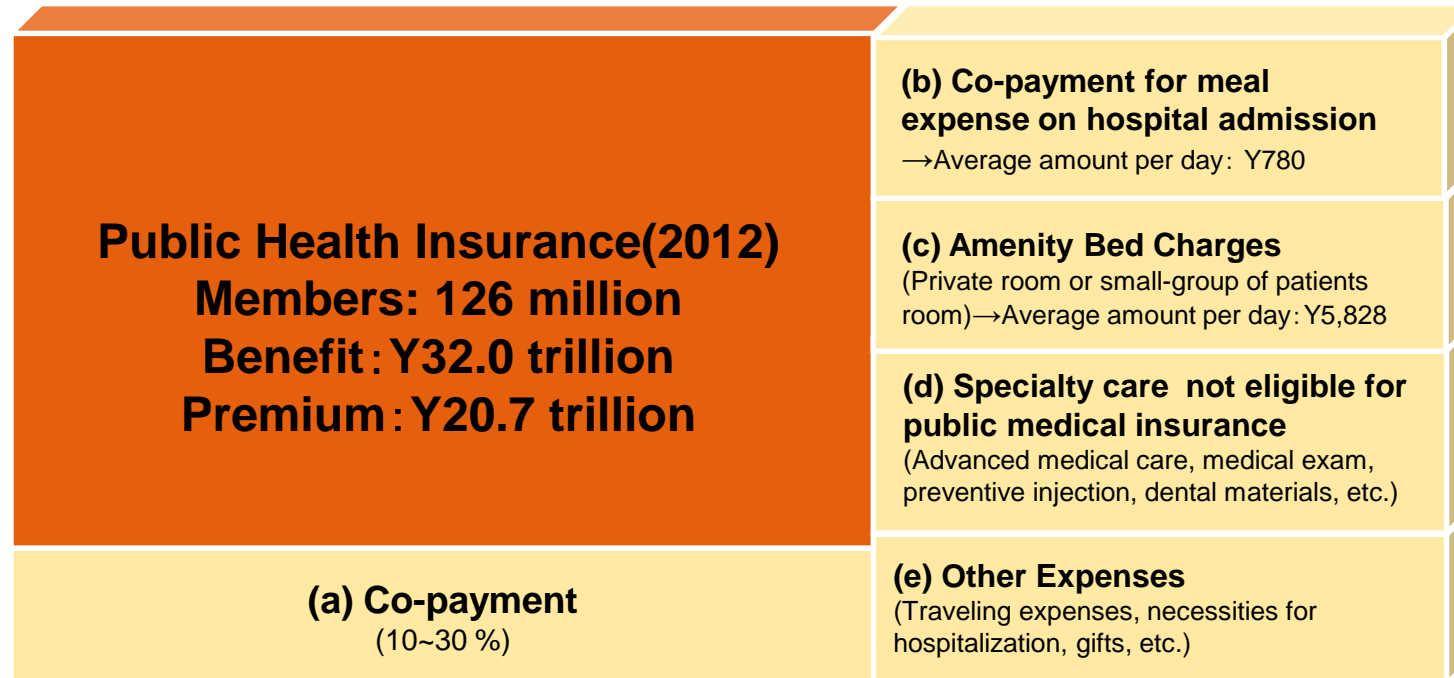
(2) Post-Retirement Security

<Pension System in Japan (the end of March, 2013)>



1. Estimated by the survey of JILI
 2. Total of employees' pension fund and defined benefit plan

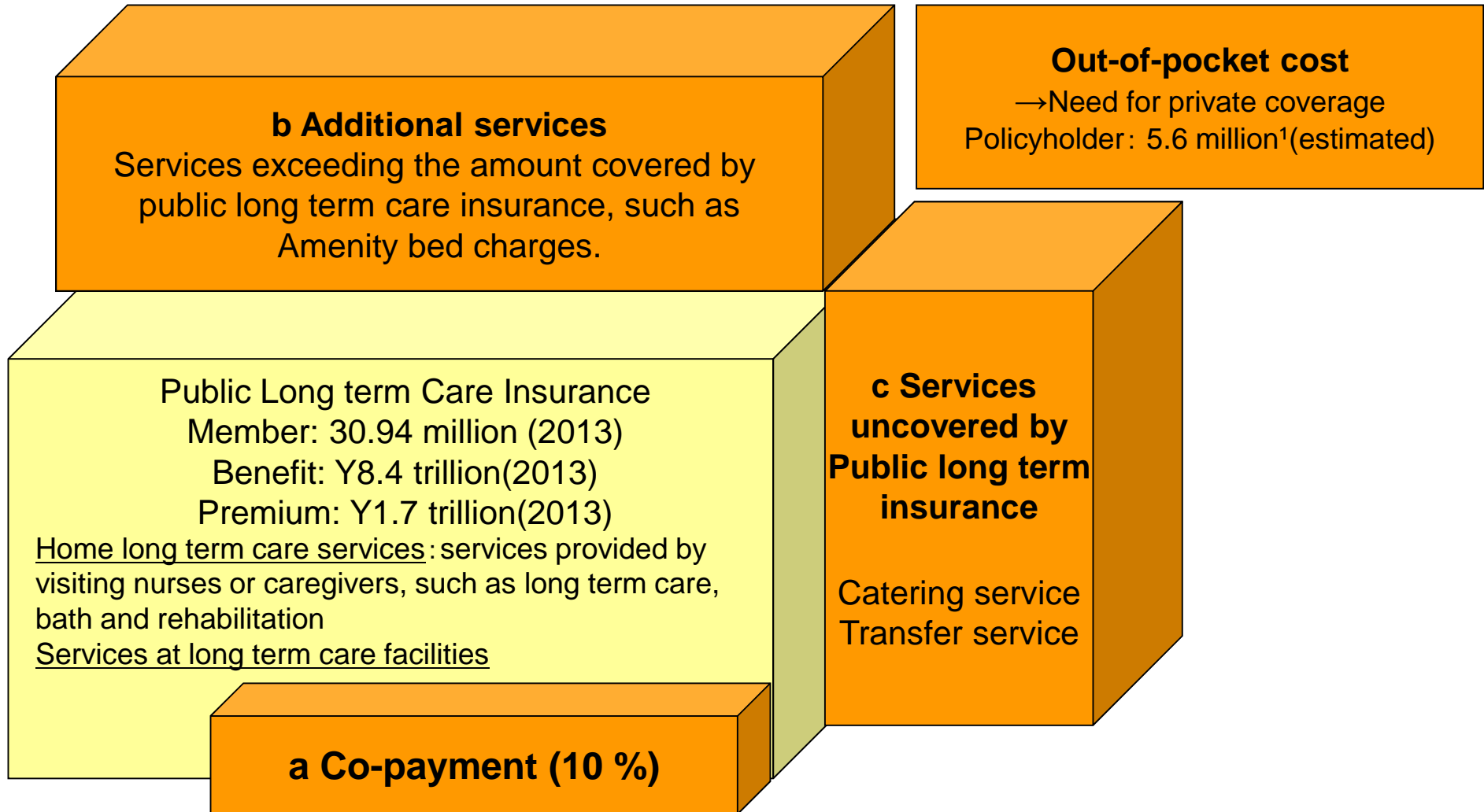
(3) Medical Security



1. Estimated by the survey of JILI

2. Including medical, accident and long term care insurance

(4) Long-Term Care Security

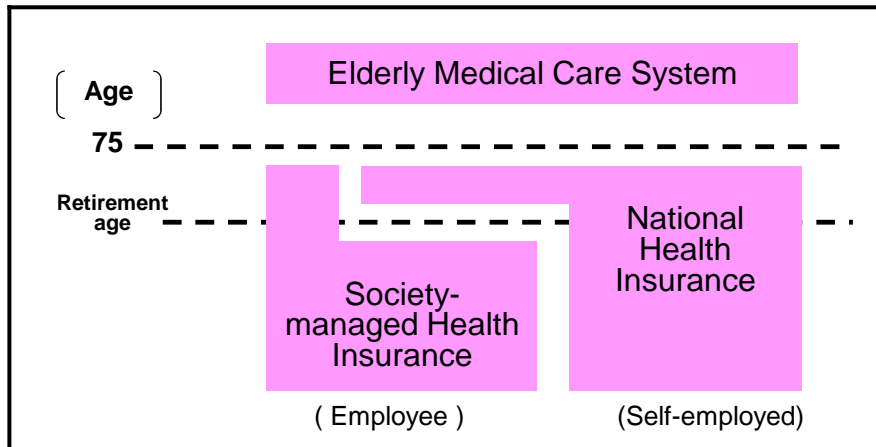


1. Estimated by the survey of JILI

<Reference>
(a) Public Pension

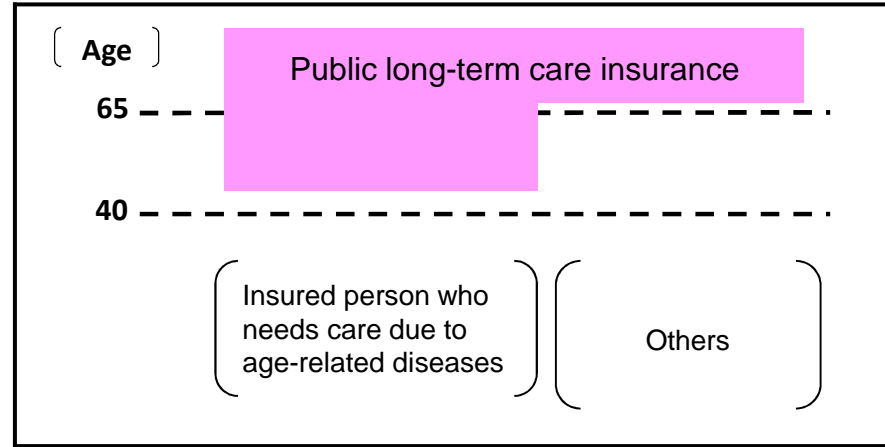
Old Age Benefit	Survivor Benefit
<ul style="list-style-type: none"> ➢ Cost <ul style="list-style-type: none"> • National Government Subsidies • Premium <ul style="list-style-type: none"> • self-employed ... ¥15,590/M • employee ... 17.474% of salary ✓ Public Pension can use fund (¥123 trillion) to ensure paying benefit sustainably. ➢ Benefit <ul style="list-style-type: none"> • Starting age <ul style="list-style-type: none"> • 65 years old ✓ Some older people can receive it from 60 years old. <ul style="list-style-type: none"> • Amount <ul style="list-style-type: none"> • self-employed ... ¥772,800/Y • employee ... income-related amount/Y ✓ Amount is adjusted not only for price fluctuation but also for a decrease in population. <ul style="list-style-type: none"> • Eligibility to receive pension benefit <ul style="list-style-type: none"> • premium payment for 25 years(10 years after October 2015) 	<ul style="list-style-type: none"> ➢ Cost <ul style="list-style-type: none"> ✓ Same as Public Pension (Old Age Benefit) ➢ Benefit <ul style="list-style-type: none"> • Survivors' Employees' Pension <ul style="list-style-type: none"> • Eligibility ... Employee • Amount ... 3/4 of Old Age Benefit(Pension) • Widow's Pension <ul style="list-style-type: none"> • Eligibility ... Self-employed Age of widow is 60-65 • Amount ... 3/4 of Old Age Benefit(Pension) • Survivors' Basic Pension <ul style="list-style-type: none"> • Eligibility ... Employee and Self-employed Survivors have children • Amount ... ¥772,800/Y + ¥224,000/Y per child

(b) Public Health Insurance



- Cost
 - National and Local Government Subsidies
 - Premium
 - Society-managed Health Insurance fixed % of salary
 - National Health Insurance/Elderly Medical Care System premium determined by local government
- Benefit
 - Benefit in Kind
 - 70% of Medical Service Cost
 - ✓ 70% may increase to 80% or 90% when insured person is under 6 years old or over 70 years old.
 - ✓ Out of pocket expense is limited depending on age and income of insured person.
 - ✓ Medical Service doesn't include some highly-advanced medical technology.
 - Benefit in Cash
 - Child birth allowance

(c) Public Long-term Care Insurance



- Cost
 - National and Local Government Subsidies
 - Premium
 - Insured persons who are 40-65 years old premium fixed depending on Public Health Insurance
 - Insured persons who are 65- years old premium determined by local government
- Benefit
 - Benefit in Kind
 - 90% of Long-term Care Service Cost
 - Insured persons who are 40-65 years old can receive benefit only when they need long-term care due to age-related diseases.
 - ✓ Out of pocket expense is limited depending on age and income of insured person.
 - ✓ Long-term Care Service Cost is fixed depending on care-needs of insured person.

(1) Licensing

- ◆ No insurance business shall be operated without having obtained a license due to its characteristics of underwriting contracts from a large amount of people.
- ◆ The license consists of two types; the life insurance business license and the general insurance business license.
- ◆ Companies with the life insurance business license may underwrite insurance of type 1 and type 2, and companies with the general insurance business license may underwrite insurance of type 2 and type 3 as below.

<Types of Insurance>

- Type 1: To pay a fixed amount of insurance claims in connection with the life or death of individuals (Life Insurance)
- Type 2: To pay a fixed amount of insurance claims in connection with injury, disease and long-term care (Third-sector Insurance)
- Type 3: To compensate for damage caused by a certain fortuitous accident (General Insurance)

(2) Restriction on Other Business and Scope of Business

- ◆ An Insurance Company may not conduct business other than these conducted pursuant to the Insurance Business Act and other relate acts.

- ◆ An insurance company may conduct the following businesses under the Insurance Business Act (IBA):

1. Proper Businesses

- Underwriting insurance policies and asset investment

2. Incidental Businesses

- Representing the businesses or carrying out services on behalf of other insurance companies and others operating financial businesses
- Guarantee of obligation
- Underwriting of National Government Bonds or handling of public offerings of the National Government Bonds
- Acquisition or transfer of monetary claims
- Underwriting of specified company bonds issued by special purpose companies and any other securities or handling of public offering of the specified company bonds
- Acquisition or transfer of short-term company bonds
- Handling of a private placement of securities
- Financial futures transactions at exchange
- Financial derivative transactions
- Over-the-counter transactions of securities-related derivatives

3. Statutory Other Businesses

- Subscription or commissioning the administration of bonds, dealings in public bonds, life insurance trust, securities investment trust, sales and purchase of foreign investment trusts and its intermediary, investment advisory business

(3) Subsidiary

◆ There are certain limits on business conducted by a subsidiary company as follows:

1. Definition of subsidiary company

- A company of which voting rights exceeding fifty hundredths of the voting rights of all the shareholders are held by another company
- A company of which voting rights exceeding fifty hundredths of the voting rights held by all shareholders of another company, are owned by the company and one or more of the subsidiary companies of such company.

2. Scope of subsidiary company

- A (foreign) life insurance company, a (foreign) general insurance company, a (foreign) small amount and short term insurance provider, a (foreign) bank, a (foreign) security company, a (foreign) trust company, companies which exclusively engage in dependent business or finance-related business, a venture company which is held through venture capital, holding companies whose subsidiary companies consist exclusively of those-already-mentioned companies
- Also, there are limits on business conducted by a subsidiary/affiliate (not a subsidiary company but has business relation with it).

(4) Requirement on documentation and authorization for documents

◆ To obtain a license, following documents shall be attached to the written application for a license (articles of incorporation, statement of business procedures, general policy condition, and statement of calculation procedures for premiums and policy reserves).

◆ To change matters prescribed in those documents, an insurance company shall obtain the authorization from the Commissioner of the FSA. With respect to matters specified as being not very likely to impair the protection of policyholders, an insurance company shall give advance notification.

(5) Asset Investment

An insurance company shall conduct asset investment by following financial instruments;

- Securities, real estates, monetary claims, short-term corporate bonds, gold bullion, loan of funds (money/securities), contribution to labor union contracts, deposit and savings, money/monetary claims/securities/real estate in trust, derivative transactions for asset investments, derivative transactions other than that, financial derivative transactions, forward foreign exchange transactions, and any other equivalent transactions

(6) Policy Reserve

- ◆ An insurer shall set aside a certain amount of money as a policy reserve to prepare for future performance of obligations under its insurance contracts for each accounting period.
- ◆ **Standard Policy Reserve:** The Commissioner of the FSA may set necessary requirements for the method of funding the policy reserve pertaining to the long-term insurance contracts as well as for the levels of the coefficients that should constitute the basis for calculating the amount of policy reserves, such as expected mortality.

1. Method of funding the policy reserves: Net level premium method

2. Expected mortality rate: Developed by the Institute of Actuaries of Japan, and verified by the Commissioner of the FSA.
Contracts concluded during April 1, 1996 and March 31, 2007: Calculated based on Standard Mortality Table 1996 (For death insurance contracts, for annuity contracts after the beginning of payment)
Contracts concluded during April 1, 2007: Calculated based on Standard Mortality Table 2007 (For death insurance contracts, for annuity contracts after the beginning of payment) and calculated based on Standard Mortality Table 2007 for third sector products

3. Expected interest rate: Contracts concluded on or before March 31, 1999 = 2.75% per year
Contracts concluded between April 1, 1999 and March 31, 2001 = 2.00% per year
Contracts concluded between April 1, 2001 and March 31, 2013 = 1.50% per year
Contracts concluded on or after April 1, 2013 = 1.00% per year

(Note) For the calculation of the standard expected interest rate, whichever lower will be used in the calculation: (1) the average rate of the 10-year JGBs yield to subscribers, which were issued for the past three years from the previous month of the reference date, or (2) the average rate of the 10-year JGBs yield to subscribers, which were issued for the past ten years from the previous month of the reference date.

Since April 2017, new calculation method will be applied to saving type products to reflect current condition of interest rate.

Contracts concluded on or after April 1, 2017: single premium whole life policy etc. = 1.00% per year
single premium endowment life policy etc. = 0.50% per year
others = 1.00% per year

(7) Appointed Actuary

◆ An insurer shall appoint an actuary at the board of directors.

1. Requirement for appointment of actuary: Fellows of the IAJ with a certain amount of experience with regard to actuarial science

2. Related matters: An insurer shall get involved with following matters based on the relevant laws

➤ calculation method of insurance premiums, calculation method of policy reserves, calculation method of policy dividends or dividends of surplus to members, calculation method for refund and other accumulated fund for policyholders, calculation of uncollected premium, calculation of reserve for outstanding claim, planning for insurance solicitation, development of rules regarding salaries of life insurance solicitors, and other necessary matters to carry on the operation of actuaries

3. Duties: The actuary shall check the following matters and submit to the board of directors a written opinion describing its findings for each accounting period.

➤ Whether the policy reserve has been funded according to sound actuarial practice.

(Note) Future cash flow analysis verifies the sufficiency of accumulated policy reserves, and if it is expected that the loss will be incurred, actuaries shall describe the need of additional policy reserve accumulation in a written opinion.

➤ Whether policy dividends or dividends of surplus to members have been distributed in a fair and equitable manner.

➤ Whether it is difficult for an insurer to continue its business according to a result derived from rationally calculated future cash flow based on the actuarial mathematics or not.

➤ The Commissioner of the FSA may order an insurer to dismiss its actuary when it has violated any provision of IBA and etc.

(8) Solvency Margin Ratio

The reserves of insurers are sufficient to cover normal expected risks. However, unexpected events such as catastrophic disasters or plunging stock prices can happen. In order to determine whether an insurer has a sufficient "margin of solvency" to cover such unexpected risks, the solvency margin ratio was introduced as an index of administrative supervision. Since the fiscal year ending in March 1998, life insurers in Japan have been disclosing their solvency margin ratio. It is calculated as follows:

$$\text{Solvency Margin Ratio (\%)} = \frac{\text{Total Amount of Solvency Margin}^a}{1/2 \times \text{Sum Total of Risks}^b} * 100$$

^a The "Total Amount of Solvency Margin" (numerator) is the total of the following:
 = Total Capital + Price Fluctuation Reserve + Contingency Reserve + General Bad Debt Reserve + 90% of Variance of the Estimate of Other Securities* + 85% of Unrealized Gain or Loss on Real Estate* + Debt Capital Instruments + Deductible Items, and others.

* If these values are negative, 100% of the value is applied instead of 90% or 85%.

^b The "Sum Total of Risks" (denominator) is calculated as follows:

$$= \sqrt{(R1 + R8)_2 + (R2 + R3 + R7)_2 + R4}$$

R₁: *Underwriting Risk* – Risk of massive insurance payouts following a disaster or catastrophe

R₈: *Underwriting Risk of third-sector insurance* – Risk of massive third-sector insurance payouts such as health insurance and cancer insurance

R₂: *Expected Interest Rate Risk* – Risk that investment return falls below the expected interest rate

R₃: *Asset Management Risk* – Risk of a drastic devaluation of assets because of a crash in stock prices or sharp fluctuation in the currency market, and risk of a sharp increase in irrecoverable loans due to failures of borrowing companies

R₄: *Business Management Risk* – Business risk in excess of normal expectations

R₇: *Minimum Guarantee Risk* – Risk related to the minimum guarantee for benefits of variable insurance and variable annuity products

(9) Supervisory Power

◆To require an insurer to submit reports or materials concerning the status of its business or property to protect policyholders by ensuring the sound and appropriate management of the insurer, the Commissioner of the FSA may conduct following;

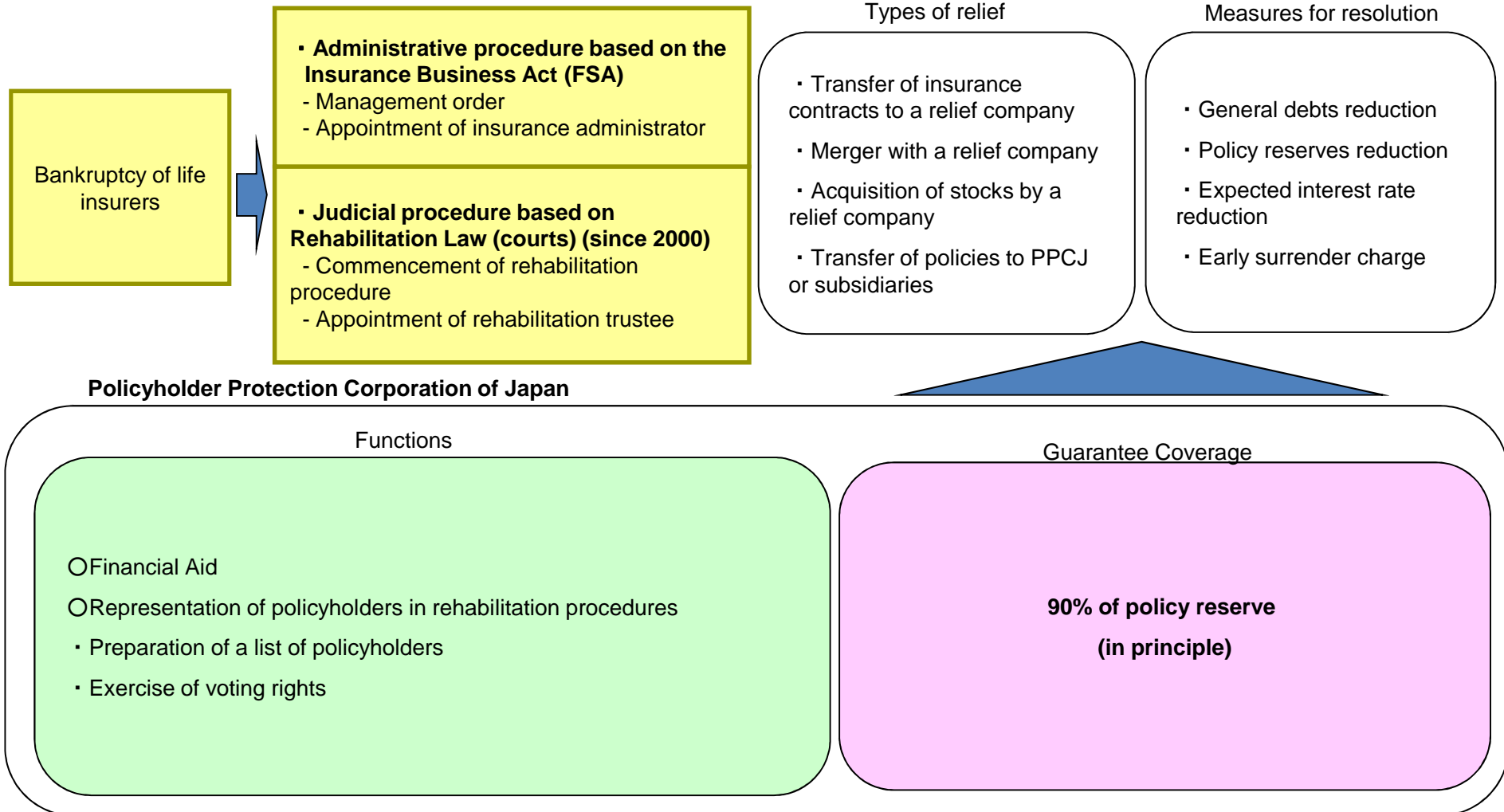
1. Submission of reports or materials: Require the insurer to submit reports or materials concerning the status of its business or property.
2. Inspection: have its officials enter a facility of the insurer, ask questions on the status of its business or property, or inspect relevant objects such as books and documents.
3. Order to change matters prescribed in Statement of Business Procedures
4. Submission of an improvement program, suspension of business, etc. :request the insurer to submit an improvement program by identifying matters for which measures shall be taken as well as due dates, or, within the limit necessary, order the full or partial suspension of the business of the insurer with due dates.

<Prompt Corrective Action System>

The Commissioner of the FSA may require an insurer whose solvency margin ratio is under 200% to take following corrective actions by each category:

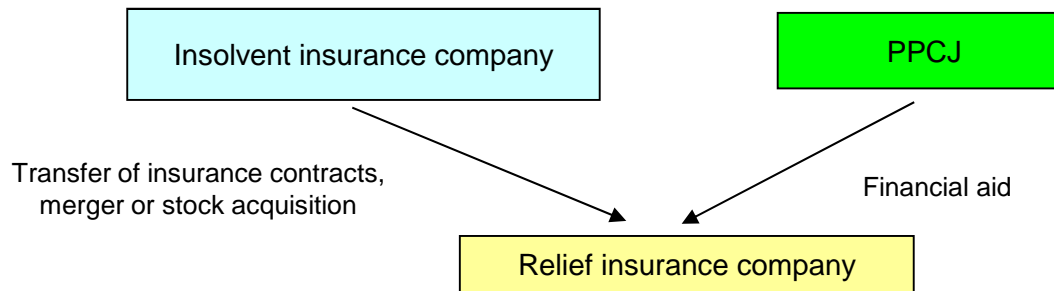
Category	Solvency Margin Ratio	Corrective Measure
Category 1	100% to less than 200%	Submission and implementation of a business improvement plan
Category 2	0% to less than 100%	Submission and implementation of a plan for adequate solvency of the insurer, etc.
Category 3	Less than 0%	Partial or full suspension of the business with due dates

(10) Resolution scheme



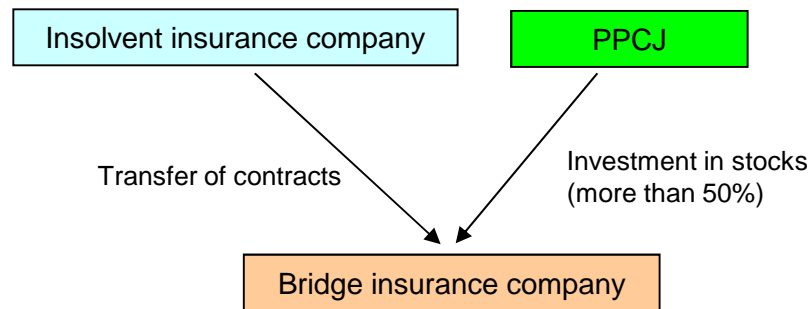
<Policyholder Protection Scheme>

<When a relief company exists>

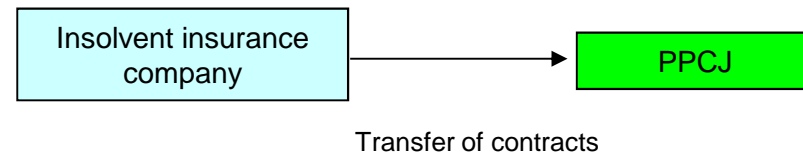


<When a relief company does not exist>

1. Transfer of contracts to a bridge insurance company



2. Contracts undertaken directly by the PPCJ



<Funding scheme>

The size of protection funds based on the assumption of few bankruptcies in a decade

■ Contribution

- Contribution of life insurers (per year): Y33 billion
- The amount is allocated to each member based on policy reserves and premium incomes
- Financial resources: Y400 billion

⇒ Designed as pre-funded regime; however, post-funded in practice because of several bankruptcies in the early stage

■ Loan and government assistance

- When the amount of financial aid exceeds its financial resources
 - Borrow money from financial institutions (debt cap: Y460 billion)
 - government guarantee is available
 - The government subsidy is available if the amount of financial aid exceeds the debt cap
 - extended until the end of March 2017

(11) Solicitation

◆ There are regulations specified in IBA in order to regulate solicitation activities by an insurer as follows;

1. Restrictions on insurance solicitation, Registration of life insurance solicitors

➤ Persons allowed to conduct insurance solicitation business are limited to life insurance solicitors registered with the Commissioner of the FSA.

➤ Life insurance solicitor: an officer or employee of a life insurer, person entrusted by a life insurer, an officer or employee of such person entrusted

(Note) Ban on bancassurance was lifted in 2001.

2. Prohibition on life insurance solicitors to work for more than one life insurer

➤ A life insurer shall not entrust a life insurance solicitor of another life insurer with any insurance solicitation business on its own behalf.

(Note) As an exception, an insurance agent which has at least 2 a responsible officer for education/training and a responsible officer for business management is excluded from this restriction.

3. Prohibited acts

➤ Prohibited acts pertaining to insurance solicitation are specified.

➤ False statement and not disclosing any important matters, encouraging to breach disclosure obligation, inappropriately inducing to apply for a new insurance contract, provision of any special advantage, misleading comparison, making a conclusive statement on such as dividend uncertain.

4. Supervision by the FSA

➤ The Commissioner of the FSA may order a life insurance solicitor to submit any report or data, and conduct on-site inspection.

➤ The Commissioner of the FSA may order for improvement of business operation when it finds any fact that might harm the interest of policyholders.

The IBA has provisions requiring life insurers to take measures to ensure sound and appropriate business operation (e.g. explanation of important matters to customers). The detailed contents to be explained are prescribed in Ordinance for Enforcement of the IBA and Comprehensive Guidelines for Supervision of Insurance Companies (which describes basic concept for the supervision by FSA, valuation items, points to be mentioned)

Topics: 1. Revision in Solicitation Regulations (Amendment to IBA in June 2014) (unenforced)

Changes in business environment of life insurance industry

- Increasingly complicated insurance products/further diversified distribution channels
- New types of agencies which offer insurance products of multiple insurance companies



Need for reestablishment of solicitation regulations corresponding to the changes in business environment

Establishment of Basic Rules for Insurance Solicitation

With the aim of providing thorough services at every stage of whole insurance solicitation procedures (e.g. from ascertaining customer's wishes to concluding insurance contracts), new solicitation regulations to require active attitude for customer services will be introduced, in addition to the existing regulations which only prohibits companies from conducting inappropriate practices.

- Introduction of Obligation to ascertain customer's wishes
To require insurers to ascertain customer's wishes and propose appropriate products in accordance with their wishes/intention
- Introduction of Obligation to provide necessary information
To require insurers to provide necessary information to determine whether or not to conclude suggested insurance contract (e.g. detailed information on insurance products)

Establishment of Regulations on Insurance Solicitors

In light of increase of independent insurance agencies, new regulations to require "insurance solicitors" to improve solicitation systems reflecting their actual practices will be introduced, in addition to the existing solicitor regulations which place supervisory responsibility on "insurance companies".

- Introduction of Obligation to insurance solicitors to improve their solicitation system
To require insurance solicitors to improve their solicitation system in light of characteristics/scale of responsibilities of insurance solicitors (e.g. whether they offer insurance products of multiple insurance companies).

Topics: 2. Orderly Resolution Regime for Financial Institutions (Enforcement in March 2014)

In order to prevent financial crisis which may spread across financial market and pose significant impact on the real economy (e.g. failure of Legman Brothers), a new orderly resolution regime for financial institutions was introduced in accordance with endorsement of the G20.

Scope

Whole financial industry (depository financial institutions, insurance companies, financial instruments business operators, financial holding companies, and etc.)

Procedure & Condition for Initiating the Regime

The Prime Minister declares and confirms the need to implement the orderly resolution regime for financial institutions, following deliberations by the Financial Crisis Response Council.

(Note) Financial Crisis Response Council: Consisting of Prime Minister (Chairman), Chief Cabinet Secretary, Finance Minister, Minister in charge of financial affairs, Bank of Japan Governor, Financial Services Agency Commissioner

Resolution Measures

When it is considered necessary to prevent significant disruptions to the market

⇒ Oversight by the Deposit Insurance Corporation of Japan

⇒ Provision of liquidity and financial assistance

* Capital injection may be undertaken as necessary provided the financial institutions are not insolvent.

→ The measures reduce market transactions, while ensuring the performance and continuation of obligations which are critical for stabilization of the financial system, thereby achieving orderly resolution of financial institutions and preventing severe disruption to the market.

(Note) When the measure above implemented, contractual bail-in options (writing down of unsecured debts or converting unsecured debts into equity) are exercised.

Funding

- The government provides guarantees for the DICJ's funding.
- If losses are incurred, in principle the expenses need to be borne ex post by the financial industry's participants.
- The government may provide financial support in exceptional cases.

1. Cooperatives (Kyosai)

- ✓ While Insurance does not limit the scope of policyholder, Kyosai is a scheme, “formed by residents in the same region or persons engaged in the same occupation, which provides a certain amount of benefits from the pooled financial contributions of the membership for disaster, death or accident with the aim of mutual assistance.”
- ✓ However, Kyosai has the same key role in the society as a security provider.
- ✓ At the same time, while insurance is provided by insurance companies in accordance with the Insurance Business Act, Kyosai is provided by various different groups or organizations (e.g. operated by regions or occupational unions) and the type of their regulation widely varies.
- ✓ Kyosai is categorized as regulated Kyosai and unregulated Kyosai. The former operates its business under the supervision of relevant authorities, but the latter is not under any supervisory authorities since there is no legal requirement on their business operation. This caused various troubles on benefit payments and solicitations, and therefore, after the revision of the Insurance Business Act in 2006, unregulated Kyosai was required to be either an insurance company or a small-amount and short-term insurance company to continue its business.

Comparison of Kyosai and Insurance

	National Mutual Insurance Federation of Agricultural Cooperatives	National Federation of Workers and Consumers Insurance Cooperatives	The Federation of Japanese Consumer Cooperatives	Life Insurance Company (Nippon Life)
Governing Law	The Agricultural Cooperative Society Law	The Consumers' Livelihood Cooperative Society Law		Insurance Business Act
Administrative Office	Ministry of Agriculture, Forestry and Fisheries	Ministry of Health, Labor and Welfare		FSA
Product	It is allowed to offer both types of cooperative products of life insurance and general insurance (There is no regulation on concurrent operation)			A company should choose which type to operate, either life or general insurance.
Maximum limit on payable benefits (Life Insurance Type)	Death benefit: ¥500 mil. Annuity: ¥30 mil. per year	Death benefit: ¥30 mil. Annuity: ¥0.9 mil. per year	Death benefit due to traffic accident: ¥20 mil. Death benefit due to sickness: ¥8 mil. Accident hospitalization: ¥10k per day Sickness hospitalization: ¥9 k per day	No limit
Business scale (Note1)	-Number of policies: 20.79 mil. -Premium income: ¥3,718 bn. -Total asset: ¥52,355 bn.	-Number of policies: 7.80 mil. -Premium income: ¥256 bn. -Total asset: ¥3,399 bn.	Number of policies: ¥16.70 mil. Premium income: ¥513.5 bn. Total asset: ¥65.11 bn.	Number of policies: 21.32 million Premium income: ¥3,172 billion Total asset: ¥56,790 billion
Other	- No safety net measures other than contribution of certain amount of deposits - Preferential tax treatment			Obligation to be members of LIPPCJ

Note 1: Number of policies in force, premium income (total of individual insurance and individual annuity (cooperative life and mutual aid pension)), and total assets.

Note 2: The total asset of cooperatives includes general insurance type assets.

2. Small Amount & Short-term Insurance

About Small Amount & Short-term Insurance

- ✓ After the revision of the Insurance Business Act in 2006, unregulated Kyosai was required to be either an insurance company or a small-amount and short-term insurance company to continue its business within two years from the effective date of revised IBA.
- ✓ The number of small amount and short-term insurance companies is 82 as of April 2015. The number of policies in force is 5.18 million, and the amount of premium income is 51.7 billion yen.

Comparison of Small Amount & Short-term Insurance Company and Insurance Company

	Small Amount & Short-term Insurance Company	Insurance Company
Operation requirement	Registration by Prime Minister	Licensing by Prime Minister
Minimum capital amount	10 million yen + deposits	1 billion yen or more
Product	Limited to short term insurance with small amount of benefits and with no refund payment - Coverage period Life/Medical insurance: For 1 year General insurance: For 2 years - Maximum benefit amount Serious disability or death due to sickness: 3 million yen Hospitalization due to sickness or accident: 0.8 million yen Serious disability or death due to accident: 6 million yen General insurance: 10 million yen	No limitation on its term, amount and refund A company should choose which type to operate, either life or general insurance.
Asset Investment	Safety asset (e.g. deposit and government bond)	Free of choice in principle (e.g. stock, real estate and loan) * It has limits on asset investment ratio.
Other	Obligation on information disclosure, regulation on solicitation, obligation on accumulation of policy reserves, inspection and supervision	

3. Postal Life Insurance

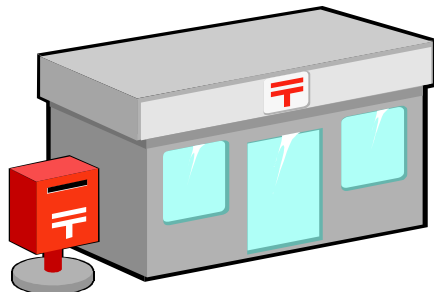
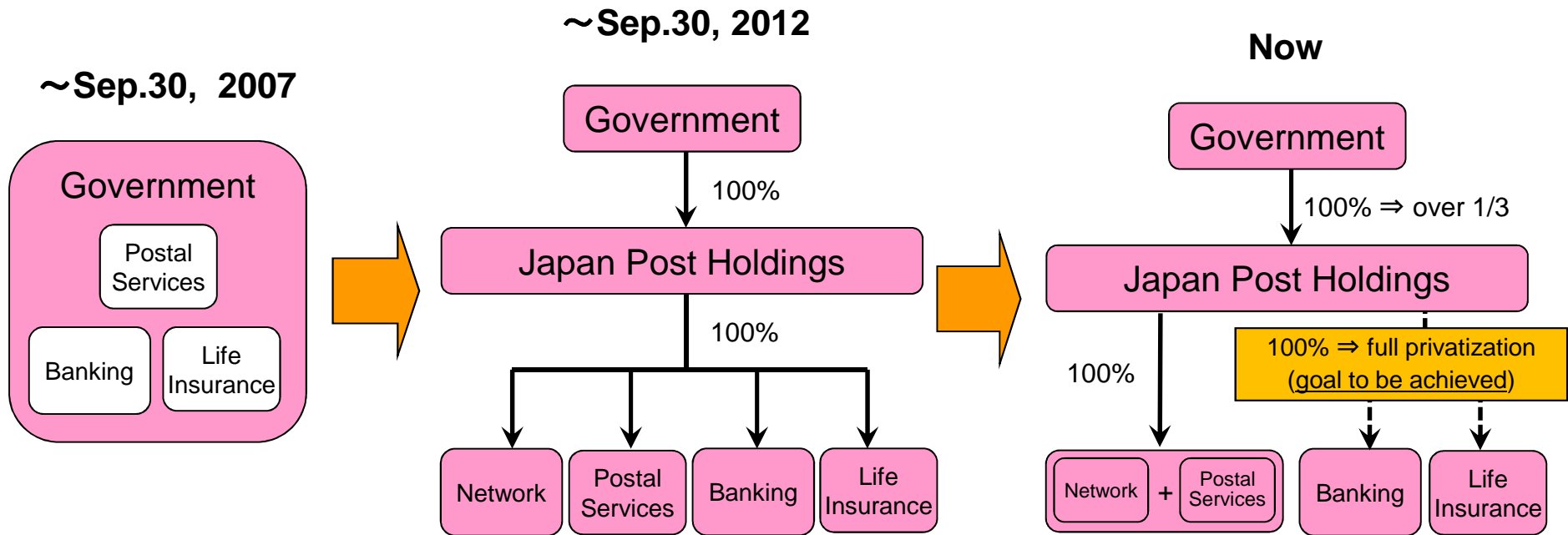
Overview of Postal Life Insurance

- ✓ State-owned postal life insurance business
 - > Postal life insurance was established in October 1916 with the aim to provide low premium insurance with simple enrollment procedure.
 - > While private life insurance was mainly for middle-income class at that time, postal life insurance targeted general working class which was not able to enroll in private life insurance of that time. At that time, postal life insurance was considered as a scheme to complement a function of private life insurance.
- ✓ Issues concerning postal life insurance business
 - > Various new postal insurance products were developed, following the development of new products and services of private life insurance companies.
 - > As this was a state-owned business, certain privilege was offered to postal life insurance business such as government guarantee of benefit payment and tax advantages (corporate tax exemption).
 - > The market share of postal life insurance business was grown, and the amount of policies in force was approximately 157 trillion yen, the amount of premium income was approximately 9.2 trillion yen (33% of premium income of private life insurance) and the amount of total assets was 117 trillion yen (55% of total assets of private life insurance) as of the end of fiscal 2006.
- ✓ Postal Services Privatization
 - > In promoting the reform of central government ministries, government funds and loans to postal life insurance business was raised an issue while downsizing and improving the efficiency of the administrative organizations.
 - > While the total amount of postal deposits and assets of postal insurance reached to 350 trillion yen, its assets were allocated to the public-sector business in principle. In this context, postal services privatization was expected to contribute to activation of the private-sector business.
 - > In 2005, Postal Service Privatization Act was enacted with the aim of promoting public convenience through various types of high-level postal services by enhancing the autonomy, creativity and efficiency of its business management. In 2007, Japan Post Holdings was established, which consists of five companies including Japan Post Insurance Company.

Japan Post Insurance

- ✓ Japan Post Insurance Company was established in October 2007 based on the Postal Services Privatization Act.
 - > Private life insurance company subject to Insurance Business Act
 - > Government guarantee was abolished for new contracts (concluded after its privatization)
 - > Total asset: 112 trillion yen
- ✓ Taking into account government funding to JP Insurance, a certain level of limitations is imposed on its business operation:
 - > Maximum limit on payable benefits: Death benefit 10 million yen (sum total 13 million yen), Annuity 0.9 million yen per year
 - > Requirement to conduct new business: Authorization by FSA Commissioner and Minister for Internal Affairs and Communications

Progress of Postal Reform



*Stocks of Japan Post Holdings and the Banking and Life Insurance subsidiaries are planned to be listed in the middle of this year.